

Examination Booklet

Advanced Diploma of Financial Services (Financial Planning)

Module 2: Estate Planning Strategy

Practice Exam

(2008/2009 Financial Year v2.0)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1** Why is estate planning an important component of financial planning?
- a) It focuses on how a clients assets after death are distributed
 - b) It ensures that clients have a large accumulation of wealth when they die
 - c) It requires the adviser to introduce other professionals into the Financial Planning process
 - d) It is the part of a client's plan that can be addressed once a client is deceased
- Question 2** A life insurance policy owned by the deceased with no nominated beneficiary is:
- a) Part of the deceased's estate
 - b) Not part of the deceased's estate
 - c) Distributed in accordance with the wishes of the family court
 - d) Paid directly to an intestate beneficiary
- Question 3** Which of the following is INCORRECT? Financial advisers should:
- a) Identify the personal and financial issues which could affect a client's family and the transfer of wealth upon death
 - b) Provide advice on all financial and taxation matters regardless of complexity
 - c) Develop a strategy and document that will form the estate plan
 - d) Provide timely and professional advice to allow clients the opportunity to benefit future generations
- Question 4** The adviser's role in estate planning is to:
- a) Recommend specific changes to a will as appropriate
 - b) Recommend a review of a will as appropriate
 - c) Offer him/herself as an Attorney, under a Power of Attorney arrangement with a client
 - d) Offer him/herself as an Executor to ensure correct distribution of the estate

- Question 5** Accurate records allow:
- a) For the adviser to protect the beneficiaries' rights should the will be challenged
 - b) For the estate to be quickly finalised, as all assets are known
 - c) For the will to be witnessed appropriately as all assets are known
 - d) The adviser to be involved in the winding up of the estate
- Question 6** An administrator is appointed if there is no nominated:
- a) Donee of Power of Attorney
 - b) Testator
 - c) Executor
 - d) Beneficiary
- Question 7** The person who has responsibility to care for the children of a deceased is the:
- a) Executor
 - b) Guardian
 - c) Trustee
 - d) Appointer
- Question 8** When you are preparing a SoA for a client, you would:
- a) Clarify with the client his/her needs and objectives
 - b) Identify any outstanding issues
 - c) Do the initial review of the client information
 - d) Discuss with the client the respective responsibilities of the client, adviser and any third parties, for implementing the SoA
- Question 9** Which of the following is likely to be an estate planning objective?
- a) Establishing an Enduring Power of Attorney
 - b) Preparing a will
 - c) Retiring with enough money to live comfortably
 - d) How to leave an estate to a second spouse and not have it challenged by the first spouse

- Question 10** An advantage of life insurance, from an estate sufficiency perspective, is:
- a) That any benefit is taxed as income to the estate in the year after the death (thus allowing the tax to be at a lower rate since little other income would be earned)
 - b) That any premium is tax deductible
 - c) Premiums paid through superannuation are tax deductible to the member
 - d) That it provides a lot of capital very quickly

- Question 11** A client has limited assets. He wants to leave his children more money than he has. Two possible short-term solutions to this problem are:
- I. Life Insurance
 - II. A revised will
 - III. A reduction in how much he wants to leave his children
 - IV. A more aggressive savings plan
- a) I, II and III
 - b) II and IV
 - c) I and III
 - d) II, III and IV

- Question 12** A client has a minor child. She is concerned about what might happen if she was to die while the child was still young and unable to sensibly handle a sizeable inheritance.
- One solution could be to draft her will so that the child receives the asset once reaching age 21. This is an example of:
- a) A testamentary trust
 - b) A discretionary trust
 - c) An inter vivos trust
 - d) A family trust

- Question 13** Before meeting you, your client had purchased a property with her brother. They purchased it as tenants-in-common and have been living in it since they bought it. You are reviewing her estate plan. What changes might you recommend regarding the property ownership?
- a) You should not be making any recommendation to keep or change the ownership structure
 - b) That they retain the ownership as tenants-in-common so that she can will her half to her chosen beneficiary, instead of it passing directly to her brother
 - c) That they change the property to joint-tenants so that she can will her half to her chosen beneficiary, instead of it passing directly to the brother
 - d) That she should leave it as it is and simply amend her will to exclude her brother (since he is getting the house on her death)
- Question 14** Paul has made a will. In it he has given only one instruction, that his cherished tea pot collection goes to his favoured nephew. The will is correctly signed and witnessed by the testator's friends. Hundreds of thousands of dollars of other assets Paul owns are not mentioned. What is the most likely legal status of the will?
- a) The will may be challenged claiming 'testamentary capacity' did not exist, given the assets that were left out.
 - b) The will may be challenged as there is no 'residuary clause' that would dispose of the assets not specifically mentioned
 - c) Both a) and b)
 - d) The will is valid, as the testator knew he was making a will and it was properly witnessed
- Question 15** A gift of personal property through a will, such as an antique watch, is called a:
- a) Legacy
 - b) Residue
 - c) Codicil
 - d) Nomination

- Question 16** Intestacy laws in Australia are governed by:
- a) The commonwealth Government who have explicit rules for the distribution of assets from an estate
 - b) The various states and territories who have agreed to have the same rules, in light of the number of people who own assets in various states
 - c) The Commonwealth Government, who have determined that, for taxation purposes, the rules of intestacy should be the same
 - d) The various states and territories, who have different rules for how assets of those dying intestate shall be distributed
- Question 17** Which of the following is an estate asset?
- a) A life insurance policy owned by the deceased, which has the deceased's spouse as the beneficiary
 - b) The proceeds held in the deceased's superannuation fund
 - c) The holiday home owned as joint tenants with the deceased's brother
 - d) A share of a house owned as tenants in common
- Question 18** Generally speaking, which of the following wills would be regarded as valid?
- a) A will recorded on an audio tape
 - b) An unsigned will
 - c) A will that was executed 25 years ago.
 - d) A will written during a period of mental illness
- Question 19** Why can legislation relating to Testator Family Maintenance often limit the freedom that people have to do what they like with their will?
- a) The legislation stipulates exactly who should be provided for in a will
 - b) It allows the executor the power to allocate assets to family members not listed as beneficiaries in the will
 - c) Because the deceased's family members (including divorced spouses and parents of surviving children) can apply for a portion of the estate if they were not adequately provided for
 - d) Because the nominated beneficiaries are not adequately provided for

- Question 20** Norma has been caring for her disabled daughter Mary for the last 35 years. Norma is concerned about what will happen to Mary should Norma die. Mary is clearly incapable of managing any inheritance of the family home.
- The most practical solution of the following is:
- a) Leave the family home directly to Mary via the will
 - b) A life interest, where Mary gets to use the home while she is alive, but which will pass to Mary's brother, David, on Mary's death
 - c) Leaving some funds to a local charity, with the stipulation that they look after Mary in their care facility
 - d) Leaving the home to Mary's brother David, in the hope that David will then use this asset to look after Mary
- Question 21** Helena's son, Warren, is being threatened with bankruptcy. Helena is very sick and is reviewing her will. What potential problem exists if Helena did leave assets directly to Warren?
- a) Warren may have the recently received assets seized by his creditors
 - b) Any bankruptcy will make Warren unable to accept the gift of any assets
 - c) The bankruptcy will make the executor unable to pass the assets to Warren
 - d) The bankruptcy is likely to result in the will being deemed invalid, given Warren's likely bankruptcy on Helena's death
- Question 22** An attempt at estate equalisation commonly uses insurance policies in circumstances where:
- a) The client wants to ensure that the beneficiaries are each given an appropriate amount of funds on his/her death
 - b) Estate assets are valuable but are, for example, unable to be divided, such as a family farm
 - c) Estate assets are valuable, but are able to be divided, such as a share portfolio
 - d) A reasonable estimation of the tax position of the estate on death is calculable

- Question 23** A binding death nomination is valid for:
- a) 2 years
 - b) 3 years
 - c) 4 years
 - d) 5 years
- Question 24** People face the risk that, on death, there are insufficient assets to support dependants. Term life insurance policies may be used to reduce this risk by:
- a) Providing an instant injection of capital to the dependants
 - b) Providing a regular income to the policy owner for a period of usually two years
 - c) Allowing the dependants to stay in the family home as the insurer would have directly paid off any debts the insured may have had
 - d) Triggering a clause in the client's mortgage that effectively cancels any debt owed by the insured to the lender
- Question 25** Property held as tenants-in-common is:
- a) Passed automatically to the surviving party/ies
 - b) Dealt with as separate assets within each persons will
 - c) Can never be included as part of the residuary
 - d) Always dispersed according to the laws of intestacy
- Question 26** What are the essential elements of a trust?
- a) A trustee, a beneficiary, discretionary power, the trust property
 - b) A beneficiary and a trust property
 - c) A trustee, the trust property, discretionary power
 - d) A trustee, a beneficiary, the trust property, personal obligation

- Question 27** Which of the following is not an essential element of a trust?
- a) An administrator
 - b) A trustee
 - c) A beneficiary
 - d) A personal obligation
- Question 28** What is one disadvantage of trusts?
- a) Income and capital can only be divided in amounts as determined by the trustee
 - b) Any debts will be repaid by the person's estate
 - c) That any losses incurred by the trust cannot be distributed to the beneficiaries
 - d) Losses can be bought forward and offset against future gains
- Question 29** Barry has been receiving an allocated pension for some years (now known as an account based pension), until his recent death. What estate planning could Barry have done when setting up his allocated pension?
- I. He could have nominated his wife Lorraine as his beneficiary
 - II. He could have confirmed that the fund would continue to pay Lorraine after his death
 - III. He could have confirmed that the fund would accept binding nomination of beneficiaries
- a) I and II
 - b) II and III
 - c) I only
 - d) I, II and III
- Question 30** The maximum number of people that a testator can nominate as executors is:
- a) There is no limit
 - b) 1
 - c) 2
 - d) 5

- Question 31** The role of the executor of an estate commences:
- a) As soon as the testator dies
 - b) As soon as s/he is named in the Will and the Will is correctly signed and witnessed
 - c) As soon as the family of the deceased notify him/her of the death of the testator
 - d) As soon as the testamentary trust is established
- Question 32** There are three major limits to what a donee of a power of attorney is allowed to do. Which of the following is not one of these limitations?
- a) The donee of a power cannot delegate that power to a third party
 - b) The donee cannot be told to sign documents for the donor that would constitute a crime
 - c) The donee cannot act in a way with which the donor would disapprove. For example, X could not sell Y's home if Y would have disagreed to it had s/he known about the sale
 - d) The donee cannot prepare or alter a will for the donor. The donor would need to do that him/herself
- Question 33** Under which circumstances may a statutory authority make a guardianship order?
- a) When the deceased dies intestate
 - b) When a person dies
 - c) When dependants are not provided for financially under the will
 - d) When a person becomes mentally incapacitated and a guardian has not been appointed
- Question 34** Angela is a client who has asked your advice on who she should appoint as guardian for her two young children aged 8 and 3. Of the four people she suggests, who would you recommend as the most suitable guardian?
- a) Angela's mother aged 72
 - b) Angela's brother aged 40
 - c) Angela's ex-husband aged 45, currently serving in the Middle East
 - d) Angela's solicitor

Question 35 During Peter's review he mentions that his business is suffering, he may have to declare bankruptcy, and his mother has just been diagnosed with a terminal illness.

He is worried that his impending inheritance will not help him with providing an income for his family, but rather he will be forced to use the money to pay his creditors. Under the common law duty of care, as the adviser you are:

- a) Never responsible for making estate planning recommendations unless Peter specifically asks to have these matters addressed
- b) Responsible for financial matters, not legal matters, therefore you can only assist once he declares bankruptcy or he actually receives the inheritance
- c) Always responsible in assisting Peter to anticipate and avoid foreseeable harm and make appropriate recommendations
- d) Not responsible because at the initial interview you were asked not to address Peter's estate planning needs

Question 36 You are keen for a tax accountant to give an opinion on the likely CGT liability that would arise from the sale of an asset by the beneficiaries. From the list below, select the appropriate actions and place them in the correct order:

- I. Pass the investment details on to the Tax Accountant
- II. Tell the client when next you meet that you have sought the opinion, using the information provided by you to the accountant
- III. Get permission from the client to pass the details on to the accountant
- IV. Ask the client to contact the accountant

- a) I, II
- b) IV, I
- c) I, III
- d) III, I

- Question 37** John is aged 11 and has inherited \$8,000 cash as a gift from his uncle's will. How will income from the inheritance be taxed?
- a) At normal adult rates with no tax-free threshold
 - b) Not taxed at all
 - c) At normal adult rates with a tax-free threshold of \$6,000
 - d) Unearned income up to \$416 pa is tax free, and amounts between \$416 and \$1,307 are taxed at 66%
- Question 38** Jen has inherited shares in XYZ Ltd from Teresa, who recently died. Teresa bought the shares in 1984. If Jen was to sell the shares immediately, what CGT is likely to be payable?
- a) Quite a lot, as CGT is payable on the taxable gain made from the date Teresa bought the shares to the date Jen sold them
 - b) Quite a lot, as CGT is payable on the nominal gain made from the date Teresa bought the shares to the date Jen sold them
 - c) Very little as Jen would be deemed to have acquired them at market price at Teresa's date of death, so there is unlikely to be much capital gain in the meantime
 - d) None, as the asset was a Pre-CGT asset and therefore remains one after Jen inherits it
- Question 39** Tax may be payable on:
- a) Assets passing from a deceased person to an executor or personal representative
 - b) Assets passing from the executor or personal representative to the beneficiaries
 - c) Assets passing directly to beneficiaries
 - d) Assets sold by the personal representative to any third party

- Question 40** Barry is receiving income from a family trust, of which, he is only a beneficiary. How will Centrelink assess this in regard to his Age Pension?
- a) The trust income is likely to be treated as income if the payments are regular, but it will not be assessed as an asset
 - b) The trust income is likely to be treated as income if the payments are regular, and it will also be fully assessed as an asset
 - c) The trust income is likely to be treated as income if the payments are irregular, but it will not be assessed as an asset
 - d) The trust income is not assessed. However, Barry's share of the trust assets (his entitlement under the trust deed) will count under the Assets Test
- Question 41** In regard to company assets, upon death a shareholder's shares:
- a) Pass to the surviving shareholders
 - b) Become part of the deceased's estate
 - c) Are sold to the highest bidder
 - d) Are automatically distributed to the deceased's spouse
- Question 42** A well considered succession plan for a business is likely to involve a solicitor. What would the solicitor most likely be involved in?
- I. Reviewing, but not amending, any existing will
 - II. Advise on the agreement
 - III. Drafting/redrafting the will, if estate assets need to be distributed
 - IV. Advise on the amount of death and/or disablement cover required
- a) II, III and IV
 - b) I, II and IV
 - c) II and III
 - d) I and II

- Question 43** Two business owners are considering a succession agreement. They come to you, as they cannot agree on how to best value the business they own. Amber wants to use the capitalisation of earnings method, while Brenna wants to simply have an agreed value, which would vary over time. Your advice should be:
- a) The capitalisation of earnings method, as it is simple to understand for both parties, and their respective spouses should one of them die
 - b) To encourage them to agree on a method, as an agreement is likely to be difficult to implement if there was never initial agreement on how to value the business
 - c) The agreed value method, as there are only two owners and the business is therefore likely to be reasonably simple to understand
 - d) Either method is acceptable, and both should therefore be included in the agreement
- Question 44** In order to instigate a succession plan, Amber and Brad have agreed to transfer their partnership assets to a company they will own together.
- a) There is no CGT liability, as the assets were not sold to the company
 - b) There has been a CGT event as the transfer of the assets is a disposal by Amber and Brad to the Company
 - c) There has been a CGT event as the transfer of the asset is a disposal by Amber and Brad to the company, but there is likely to be rollover relief to Amber and Brad
 - d) There is no CGT liability as the assets have not changed hands: they are still owned by Amber and Brad
- Question 45** A buy/sell agreement exists between two business partners. It only covers death and disablement (both temporary and permanent). Insurances are in place to provide the necessary capital for one partner to buy out the other's estate. If one of the partners wants the other to buy him/her out so that s/he can change careers, what legal weight does this agreement have?
- a) The agreement is binding on the partners, but alternative funding arrangements will need to be made
 - b) The agreement is not binding, but the partners can agree to use the insurance money to fund the buy out
 - c) The agreement is binding on the partners. Neither are allowed to exit the business unless they have died or they are ill/disabled
 - d) None

- Question 46** How is an equity transfer arrangement different to a corporate entity redemption agreement?
- a) With an equity transfer agreement, the number of shares in the company is ultimately reduced in the event of the death of one of the owners
 - b) With an equity transfer agreement, the number of shares in the company is maintained
 - c) With a corporate entity redemption agreement, there is maintenance of the number of shares in existence. They simply change owner
 - d) They are no different
- Question 47** There are various ways that insurance can be held when considering succession planning. What is cross-ownership insurance?
- a) Each of the principals owns the insurance on their own life
 - b) A trustee holds life insurance policies over the lives of the principals
 - c) Insurance is held on the life of the principal owner only
 - d) A business owner is the insured on a policy owned by the remaining owners. On death of an insured, the policy owners collect the benefit
- Question 48** Alby, Meryl and Bernie are equal owners of BAM! Pty Ltd. They have an agreement in place that, on the death of any of them, the shares of the deceased are transferred to the remaining owners. They have chosen to use insurance to provide the instant capital. Which of the following options is best?
- a) Cross owned with no beneficiary nominated - Alby and Meryl own on Bernie, Meryl and Bernie own on Alby and Alby and Bernie on Meryl
 - b) Self-owned with no beneficiary nominated
 - c) Owned by the company, with no beneficiary nominated
 - d) Self owned, with the company as the beneficiary nominated

Question 49 A super fund owns a policy on a member's life. The member dies and the fund collects on the policy. What is the CGT implication on the fund collecting the death benefit?

- a) It is liable for 15% contributions tax
- b) It is liable for 16.5% tax (contributions tax and Medicare)
- c) None
- d) It is liable for 31.5% tax (contributions tax, money from an untaxed source and Medicare)

Question 50 A business succession agreement is written between Brian and David. In it they agree to buy out the other's estate's share of the business. David wrote his will 5 years earlier, bequeathing his share of the business to his wife, Tabetha. The will hasn't been altered since. If David was to die today, what happens?

- a) The business agreement is binding on the estate, since it was a contractual agreement entered into in life
- b) Tabetha inherits the shares in accordance with the will, but Brian can legally force her to then sell him the shares, in accordance with the agreement
- c) The will takes precedence since it is written first
- d) The business agreement takes precedence as it is written later

Marking Guide

Advanced Diploma of Financial Services (Financial Planning)

Module 2: Estate Planning Strategy

Practice Exam

(2008/2009 Financial Year)

Question	Answer	Topic	Learning Outcome
Question 1	A	Topic 1	Describe the concept of estate planning and its relationship to the financial planning services offered to clients
Question 2	A	Topic 1	Determine what assets form part of an estate
Question 3	B	Topic 1	Describe the role of the financial adviser in estate planning
Question 4	B	Topic 1	Describe the role of the financial adviser in estate planning
Question 5	B	Topic 1	Explain the importance of maintaining accurate and up-to-date asset records
Question 6	C	Topic 1	Demonstrate an understanding of terminology used in estate planning industry
Question 7	B	Topic 1	Demonstrate an understanding of terminology used in estate planning industry
Question 8	B	Topic 2	Explore, in detail, the estate planning process
Question 9	D	Topic 2	Assist clients to establish estate planning objectives
Question 10	D	Topic 2	Determine a client's estate sufficiency needs
Question 11	C	Topic 2	Determine options available to a client in the event of a funding shortfall
Question 12	A	Topic 2	Identify possible risk protection strategies that a client may use to protect their assets
Question 13	B	Topic 2	Implement and review an estate plan for a client
Question 14	C	Topic 3	Explain the importance of a will when planning for the distribution of a client's assets
Question 15	A	Topic 3	Outline the broad contents of a will
Question 16	D	Topic 3	Explain the ramifications of a person dying 'intestate'

Question 17	D	Topic 3	Explore ways that estate assets can be structured to provide the greatest benefit to the beneficiaries
Question 18	C	Topic 3	Explain situations where a will may be challenged or revoked
Question 19	C	Topic 3	Demonstrate an understanding of the Family Provision Law and the rights of beneficiaries to contest a will if there is inadequate provisions
Question 20	B	Topic 3	Identify circumstances when beneficiaries of an estate may have special needs and develop strategies to address them
Question 21	A	Topic 3	Discuss the importance of timing in the case of vulnerable beneficiaries
Question 22	B	Topic 4	Explore ways that non-estate assets can be structured to provide the greatest benefit to beneficiaries
Question 23	B	Topic 4	Explore ways that non-estate assets can be structured to provide the greatest benefit to beneficiaries
Question 24	A	Topic 4	Describe ways that insurance policies may be used to reduce a client's risk when estate planning
Question 25	B	Topic 4	Describe different ways of disposing of assets that are held in joint tenancy and tenancy-in-common
Question 26	D	Topic 4	Explore issues relating to the establishment of different types of trusts and ways that they may be used to protect a client's assets
Question 27	A	Topic 4	Explore issues relating to the establishment of different types of trusts and ways that they may be used to protect a client's assets
Question 28	C	Topic 4	Explore issues relating to the establishment of different types of trusts and ways that they may be used to protect a client's assets
Question 29	D	Topic 4	Identify strategies for dealing with superannuation and assets that are held in a company or partnership

Question 30	A	Topic 5	Describe the estate administration process and the procedures for the distribution of an estate
Question 31	A	Topic 5	Explain the role and duties of the executors and a personal representative administering the estate of a deceased person
Question 32	C	Topic 5	Discuss the purpose of and types of power of attorney, and identifying when each should be used
Question 33	D	Topic 5	Explain the role of the guardian
Question 34	B	Topic 5	Explain the role of the guardian
Question 35	C	Topic 6	Identify the importance of the adviser keeping accurate records, observing professional standards and working within the Common Law Duty of Care
Question 36	D	Topic 6	Identify the importance of the adviser keeping accurate records, observing professional standards and working within the Common Law Duty of Care
Question 37	C	Topic 6	Analyse the impact of taxation on distributions from deceased estates and develop strategies to minimise tax
Question 38	C	Topic 6	Demonstrate an understanding of capital gains tax on disposal of assets in an estate
Question 39	D	Topic 6	Demonstrate an understanding of capital gains tax on disposal of assets in an estate
Question 40	A	Topic 6	Advise on issues relating to protecting social security and government entitlement for beneficiaries who are vulnerable
Question 41	B	Topic 7	Define business succession planning and the effect that death of a proprietor has on the business
Question 42	C	Topic 7	Describe what is involved in the preparation of a business succession plan
Question 43	B	Topic 7	Explain the role of the financial planner in the business succession planning process
Question 44	C	Topic 7	Demonstrate an understanding of taxation issues of succession planning

Question 45	D	Topic 7	Identify the range of business succession agreements and their application
Question 46	B	Topic 7	Identify the range of business succession agreements and their application
Question 47	D	Topic 7	Identify and select funding strategies for a range of business entities
Question 48	B	Topic 7	Identify and select funding strategies for a range of business entities
Question 49	C	Topic 7	Identify and select funding strategies for a range of business entities
Question 50	A	Topic 7	Explain the relationship of the will to the business succession plan