

## Examination Booklet

# Diploma of Financial Services (Financial Planning)

## Module 1: Introduction to Financial Planning

## Practice Exam

(2008/2009 Financial Year January)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1**      Once a licensee has been granted an AFSL, its Authorised Representatives need to be issued with what?
- a) A 'Corporate Advice Authority'
  - b) A 'Corporate Authority'
  - c) A 'Proper Authority'
  - d) A 'Letter of Authority'
- Question 2**      What are the common client characteristics for a high income earner?
- a) Often debt laden for purchase of home
  - b) Very focused on post retirement income
  - c) Employed or self-employed. Taxation strategies more important
  - d) Starting to accumulate assets, often going into debt to achieve them
- Question 3**      Which of the following statements is true?
- a) ASIC has rules stipulating how planners should be paid
  - b) The FPA has rules stipulating how planners should be paid
  - c) Neither ASIC nor the FPA have rules stipulating how planners should be paid
  - d) Both ASIC and the FPA have rules stipulating how planners should be paid
- Question 4**      What is step two of the financial planning process?
- a) Goals setting
  - b) Identification of issues or risks
  - c) Preparation of written alternatives and recommendations
  - d) Data gathering

- Question 5** Which one of the following statements would be INAPPROPRIATE if included in a SOA for a client?
- a) We expect that your investments will return at least 5% per annum on average over the next 5 years
  - b) Your investments will return at least 5% each year for the next 5 years
  - c) Investments in these asset classes have averaged 5% return each year. We would be expect that to continue for you
  - d) Investments in these asset classes returned 5% last year. We anticipate that this return will continue to be achieved over the long term
- Question 6** The Financial Planning Association (FPA):
- a) Seeks to ensure that Australians have access to professional financial advice
  - b) Is the primary regulator of the financial services industry
  - c) Provides membership which is compulsory for all financial planners
  - d) Is not recognised internationally
- Question 7** A data collection form should collect:
- a) Both qualitative and quantitative information
  - b) Quantitative information only
  - c) Qualitative information only
  - d) Financial information only
- Question 8** According to Corporations Law the adviser must disclose:
- a) Only actual conflicts of interest
  - b) Only potential conflicts of interest
  - c) Only major conflicts of interest
  - d) Both potential and actual conflicts of interest

- Question 9** Which of the following statements is correct?
- a) Quantitative data can be used to make inferences
  - b) Qualitative data is facts and figures
  - c) All data can be divided into either quantitative or qualitative data
  - d) A client's age is an example of qualitative data
- Question 10** An example of QUALITATIVE data is:
- a) Unit trust balance
  - b) Age
  - c) Preferred retirement date
  - d) Outstanding debts
- Question 11** If a client has an investment timeframe of six years, what is the planning horizon?
- a) Intermediate
  - b) Medium-term
  - c) Long-term
  - d) Short-term
- Question 12** Clients often have concerns about what is involved in seeing an adviser. Raising and discussing those concerns with the clients before they raise them themselves can have many advantages. These advantages include:
- I. It encourages openness in the discussion between the client and the adviser
  - II. It gives the client confidence in the adviser, since potentially negative issues are being freely raised
  - III. It allows for a quicker interview, thus saving time for all parties
  - IV. It allows the adviser to take control of the interview
- a) I and II
  - b) I and IV
  - c) II and III
  - d) I, II and III

- Question 13** You have a number of clients who have told you that they 'need' a new car every five years. In which of the following examples is this likely to be true?
- a) A lawyer who is eager to impress his clients
  - b) A lottery winner
  - c) An adviser who 'has to' show how successful she/he is
  - d) A taxi owner, as taxis have to be regularly replaced by law
- Question 14** Which of the following is an example of tax exempt income?
- a) Army Reserve payments
  - b) Royalties
  - c) Dividends that are being reinvested
  - d) Rental income
- Question 15** Which of the following asset classes can produce both income and growth?
- a) Equities only
  - b) Property and equities
  - c) Property, equities, fixed interest, and cash
  - d) Property, equities, and fixed interest
- Question 16** With respect to 'risk/return trade off', what is generally traded away in order to achieve higher returns?
- a) Lower investment returns
  - b) Asset allocation
  - c) Higher investment returns
  - d) Stability of income/growth levels

- Question 17** Which of the following is an example of liability risk?
- a) Through your actions, causing injury to others, or damage or loss to others' property
  - b) Death
  - c) Loss or damage to one's own property
  - d) Loss of income over an extended period of time
- Question 18** Installing a car alarm is an example of:
- a) Risk avoidance
  - b) Risk control
  - c) Risk transference
  - d) Risk retention
- Question 19** Which of the following is NOT a key component of a will?
- a) Adviser details
  - b) Revocation clause
  - c) Appointment of an executor
  - d) Residuary clause
- Question 20** What is an advantage of having a separate account for known bills?
- a) It allows the client to keep all their income together. This will reduce the client's spending and ensure that the bills can always be paid
  - b) It allows the client to ensure that the 'bill account' always has enough money in it to cover recurring expenses
  - c) It ensures that the client has enough money to spend on discretionary items
  - d) It allows the client to keep tabs on all the income they are receiving

- Question 21** A fixed interest investment is distinguished by two factors. They are:
- a) The term and the interest rate are both variable at the start of the investment
  - b) The term and the interest rate are both fixed at the start of the investment
  - c) The term is fixed at the start of the investment, but the interest rate is variable
  - d) The interest rate is fixed at the start of the investment, but the term is variable
- Question 22** Which of the following is a DISADVANTAGE of managed investments?
- a) Poor liquidity
  - b) The need for active management
  - c) Lack of diversity
  - d) Loss of personal control over decision making
- Question 23** A practical method used to manage legislative risk is:
- a) Keeping all funds outside superannuation in case an unfavourable superannuation law is introduced
  - b) Investing funds in such a way that they are governed by different legislation. Changes to law in one area will therefore not affect all the invested funds
  - c) Keeping funds inside superannuation. Since it is the government's preferred method of retirement savings, legislative changes to it will never reduce its overall attractiveness
  - d) Keeping the number of investments to a minimum. A legislative change will then mean less risk to the client since there will be fewer funds impacted by the change
- Question 24** Anyone under the age of \_\_\_\_\_ can contribute to superannuation, regardless of whether they are employed
- a) 75
  - b) 70
  - c) 65
  - d) 60

- Question 25** Which of the following is a DISADVANTAGE of account based pension?
- a) The fund balance cannot be allocated to a beneficiary upon death of the member
  - b) The restrictions on investment choice
  - c) The uncertainty surrounding how long the pension will last
  - d) The inability to make lump sum withdrawals
- Question 26** How is taxable income calculated?
- a) By subtracting any offsets from the gross tax payable
  - b) By subtracting the Medicare levy from gross income
  - c) By subtracting allowable deductions from gross income
  - d) By subtracting allowable deductions from assessable income
- Question 27** Medicare Levy is payable on:
- a) Gross income
  - b) Assessable income
  - c) Taxable income
  - d) Gross tax payable

- Question 28** Which of the following is likely to be an allowable deduction for income tax purposes?
- a) A donation to your favourite local netball team
  - b) Work clothing purchased from K-Mart
  - c) A donation to a registered charity
  - d) Your bus/train fares to and from your place of work
- Question 29** When is an investment said to be negatively geared?
- a) When the investment income is less than the ongoing cost of the investment
  - b) When the investment income is greater than the ongoing cost of the investment
  - c) When the investment income is the same as the ongoing cost of the investment
  - d) When the investment income is negative
- Question 30** Why is retirement planning becoming increasingly important?
- a) Governments are less likely to want to support the elderly
  - b) There are better medical treatments ensuring longevity
  - c) Clients want to be able to afford expensive overseas holidays when they retire
  - d) We are moving towards a self-funding retirement structure

- Question 31**      What are the two tests that Centrelink use to test eligibility for the Age Pension?
- a) The Assets and Income tests
  - b) The Assets and Means tests
  - c) The Income and Liabilities tests
  - d) The Income and Means tests
- Question 32**      With respect to estate planning, when does CGT generally apply?
- a) When the beneficiary disposes of the asset
  - b) When the deceased's assets transfer to the executor on death
  - c) When the deceased's assets transfer to the executor and then to the beneficiary
  - d) When the beneficiary receives the gift
- Question 33**      An adviser is reviewing a client's situation. What might be a practical benefit to the adviser of conducting legislative research?
- I. The adviser might amend the investment strategy in light of an announced change to tax law
  - II. The adviser might suggest the client retain certain investments in light of changes to their tax or Centrelink treatment
  - III. The adviser might suggest that implementation of a recommendation be delayed in order to take advantage of a new rule
  - IV. The adviser might suggest that implementation of a recommendation be brought forward in order to take advantage of a rule before it changes
- a) I, II, III and IV
  - b) I, II and III
  - c) I, III and IV
  - d) II, III and IV

- Question 34** An investment product has experienced a loss of customers. A **QUALITATIVE** reason for this might be:
- a) The return on that asset class is lower than other asset classes. Consequently, investors are moving out of this product in search of better returns
  - b) The tax treatment of the product has changed, making it less attractive than it was previously
  - c) A new product has been introduced that is likely to be a better investment for clients
  - d) The fund's original management team has left and their replacement team is not as well respected. Consequently, customers are leaving
- Question 35** GDP stands for Gross Domestic Product, while GNE stands for:
- a) Gross National Exports
  - b) Gross National Expense
  - c) Gross National Expansion
  - d) Gross National Expenditure
- Question 36** What are the four phases of the business cycle?
- a) Recovery, expansion, contraction, and recession
  - b) Recovery, boom, contraction, and depression
  - c) Recovery, boom, contraction, and recession
  - d) Recovery, contraction, peak, and recession
- Question 37** Which of the following statements is correct?
- a) The Reserve Bank of Australia (RBA) is wholly owned by the Australian Government
  - b) The Reserve Bank of Australia (RBA) is partly owned by the Australian Government
  - c) The Reserve Bank of Australia (RBA) is a private enterprise
  - d) The Reserve Bank of Australia (RBA) is a publicly listed company

- Question 38**      What will be the impact of a lower foreign exchange rate on Australian industry?
- a) Exports will become less affordable for overseas buyers and imports will become less expensive for Australian buyers
  - b) Exports will become less affordable for overseas buyers and imports will become more expensive for Australian buyers
  - c) Neither imports or exports will be affected for overseas or Australian buyers
  - d) Exports will become more affordable for overseas buyers and imports will become more expensive for Australian buyers
- Question 39**      Determining your client's surplus income and how it can best be used is part of which step in the development of a comprehensive strategy?
- a) Step 1 - Check that information is complete
  - b) Step 2 - Confirm the client's current financial position and any financial concerns
  - c) Step 3 - Establish the client's goals
  - d) Step 4 - Put in place recommendations to meet the client's desired future financial position
- Question 40**      A client has had a long-term asset allocation of 70% growth, 30% defensive. She is looking to increase it to 80% growth, 20% defensive due to the strength of the market. Her adviser suggests she retain her existing allocation. This is an example of:
- a) Risk profile allocation
  - b) Planned allocation
  - c) Strategic allocation
  - d) Tactical allocation
- Question 41**      What strategy do advisers use to ensure that the client's long-term goals are met by directing investments into appropriate asset classes?
- a) Risk profiling
  - b) Tactical allocations
  - c) Cash flow and budgeting
  - d) Asset allocation strategy

- Question 42**      Which of the following best describes a master trust?
- a) The investor is the owner of the underlying assets
  - b) A trustee owns the assets on behalf of the investor
  - c) The assets are owned by a syndicate
  - d) The assets are owned directly by the members of the trust

- Question 43**      Which of the following is a benefit TO THE ADVISER of presenting advice in a written form?
- a) It reduces the likelihood of being sued for wrongful advice since, if the advice was appropriate, there is a record of that advice
  - b) It allows the client to have something to which they can return if they become unsure of the strategy suggested
  - c) It ensures the adviser is presenting appropriate advice
  - d) It ensures that the licensee is aware of the advice that is going to be given to the client. If the licensee does not like the advice they can prevent it from being presented

- Question 44**      In a SOA, how must fees, commissions and costs be presented?
- a) In both dollar and percentage amounts
  - b) In dollar amounts only
  - c) In percentage amounts only
  - d) In either dollar or percentage amounts

- Question 45** Your clients appear to be happy with the advice presented to them as they are nodding as each part of the advice is explained. Is the nodding a potential problem and if so, what might you do to overcome it?
- a) No, there is no problem with nodding as it shows that the client understands the advice being explained
  - b) Yes, the client might not understand the advice but doesn't want to show it by asking for clarification. Asking questions of the client along the way and encouraging them to ask questions will help reveal any lack of understanding
  - c) Yes, the client might be nodding so as to avoid showing any lack of understanding. Taking the initiative and re-explaining the advice is the best way to handle such a response
  - d) No, the client is nodding because they understand the advice. Once the advice has been fully presented, give the client time to let it sink in before asking the client to commit to proceeding with the advice
- Question 46** The implementation of a SOA requires the co-ordination of a number of tasks. These could include:
- I. An action plan for determining who needs to do what (eg. applications submitted)
  - II. Bringing in any specialist professionals as necessary (solicitors, general insurers etc)
  - III. Retention of client files for later reference
  - IV. Contacting the client to determine a review date
- a) I, II and III
  - b) II and III
  - c) I, II and IV
  - d) I, II, III and IV
- Question 47** Which of the following is an example of a macro level change that may affect a client's financial plan?
- a) A change to marital status
  - b) An increase in annual living expenses
  - c) Changes to social security legislation
  - d) Loss of employment

- Question 48** A client is offered a 'monitoring service'. This could entail:
- a) Monitoring the client's insurances with a view to seeking out better policies that meet the client's needs
  - b) Monitoring the client's investments to ensure that an agreed asset allocation is maintained in spite of fluctuations in value of his/her assets over the course of the year
  - c) Monitoring the client's progress towards their objectives over the year
  - d) Monitoring both the insurances and estate planning needs over the course of the year
- Question 49** Why is the Strategic Review done before the Portfolio Review when reviewing a client's situation?
- a) The adviser needs to make recommendations for the investments based on the strategic approach of the fund manager. These are to be discussed with the client before any decision can be made about what products will be used to meet the client's goals
  - b) The adviser needs to determine what the most appropriate strategy is for the client, considering any changes in goals etc. The investments are then assessed for their ability to meet the client's goals
  - c) The strategy needs to be reviewed to show the performances of the fund/s over the last year, before any amendment to the portfolio is made by way of manager changes or asset allocation changes
  - d) The appropriateness of fund managers needs to be determined in the Strategy Review before any changes can be put in place during the Portfolio Review
- Question 50** What is a benefit TO THE ADVISER of providing ongoing professional service?
- a) Better compliance procedures
  - b) Client retention
  - c) The adviser learns more about financial planning
  - d) Less ASIC oversight

## Marking Guide

# Diploma of Financial Services (Financial Planning)

## Module 1:

## Introduction to Financial Planning

## Practice Exam

(2008/2009 Financial Year January)

<b>Question</b>	<b>Answer</b>	<b>Topic</b>	<b>Learning Outcome</b>
Question 1	D	Topic 1	Outline and discuss key considerations in the working environment of the adviser
Question 2	C	Topic 1	Outline and discuss key considerations in the working environment of the adviser
Question 3	C	Topic 1	Outline and discuss key considerations in the working environment of the adviser
Question 4	A	Topic 1	Identify the fundamental steps of a comprehensive financial planning approach
Question 5	B	Topic 1	Explain what professionalism means for today's adviser
Question 6	A	Topic 1	Explain what professionalism means for today's adviser
Question 7	A	Topic 2	Demonstrate an understanding of the legal requirements underpinning the collection of data in a written form
Question 8	D	Topic 2	Demonstrate an understanding of the legal requirements underpinning the collection of data in a written form
Question 9	C	Topic 2	Identify and explain the key elements to be included in a data collection form
Question 10	C	Topic 2	Identify and explain the key elements to be included in a data collection form
Question 11	B	Topic 2	Identify and explain the key elements to be included in a data collection form
Question 12	A	Topic 2	Demonstrate an awareness of the requirements for a successful initial client interview
Question 13	D	Topic 3	Differentiate between the financial needs and wants of a client
Question 14	A	Topic 3	Analyse personal and financial details provided in the information gathering stage
Question 15	D	Topic 3	Identify the major forms of investment

Question 16	D	Topic 3	Explain the basic concept of risk and return
Question 17	A	Topic 3	Identify insurance risks and ways of managing those risks
Question 18	B	Topic 3	Identify insurance risks and ways of managing those risks
Question 19	A	Topic 3	Identify the importance of wills and powers of attorney
Question 20	B	Topic 4	Demonstrate an awareness of the importance of cash flow management
Question 21	B	Topic 4	Outline the attributes and limitations of the major asset classes
Question 22	D	Topic 4	Outline the attributes and limitations of the major asset classes
Question 23	B	Topic 4	Discuss strategies to manage investment risk
Question 24	C	Topic 4	Explain the access and taxation features of tax-paid investments
Question 25	C	Topic 4	Explain the access and taxation features of tax-paid investments
Question 26	D	Topic 4	Provide a brief explanation of the fundamentals of personal taxation in Australia
Question 27	C	Topic 4	Provide a brief explanation of the fundamentals of personal taxation in Australia
Question 28	C	Topic 4	Provide a brief explanation of the fundamentals of personal taxation in Australia
Question 29	A	Topic 4	Explain the key taxation planning strategies
Question 30	D	Topic 4	Discuss the elements and risks of retirement planning
Question 31	A	Topic 4	Explain the elements and risks of retirement planning
Question 32	A	Topic 4	Outline the key issues involved with estate planning

Question 33	A	Topic 5	Discuss the purpose and sources of legislative research
Question 34	D	Topic 5	Analyse quantitative and qualitative data on a range of financial products in order to make recommendations to the client
Question 35	D	Topic 5	Discuss the state of the Australian economy with reference to economic growth, business cycles, economic indicators and inflation
Question 36	C	Topic 5	Discuss the state of the Australian economy with reference to economic growth, business cycles, economic indicators and inflation
Question 37	A	Topic 5	Outline the role of the government in building economic policy
Question 38	D	Topic 5	Outline the role of the government in building economic policy
Question 39	B	Topic 6	Outline the key steps involved in development of a comprehensive strategy
Question 40	C	Topic 6	Explain how decisions are made on asset allocation, investment types and investment products
Question 41	D	Topic 6	Explain how decisions are made on asset allocation, investment types and investment products
Question 42	B	Topic 6	Explain how decisions are made on asset allocation, investment types and investment products
Question 43	A	Topic 7	Outline the benefits of the written Statement of Advice for the client, the adviser and the financial planning licensee
Question 44	A	Topic 7	Explain the essential components of a written Statement of Advice
Question 45	B	Topic 7	Demonstrate appropriate preparation and presentation skills
Question 46	A	Topic 7	Identify and explain the elements involved in the implementation of a Statement of Advice

Question 47	C	Topic 8	Identify the types of changes which might necessitate the review of a Statement of Advice
Question 48	B	Topic 8	Identify and discuss the ongoing services that are provided by advisers
Question 49	B	Topic 8	Identify the steps in the review process
Question 50	B	Topic 8	Identify the benefits of providing an ongoing professional service