

Sample multiple choice questions.

1. A close reading of chapter 1 provides which of the following lessons for investors:

- *a. be aware of market cycles
- b. do not diversify unless there are no other options available
- c. both a and b
- d. none of the above

Correct answer: a

Feedback: Being aware of market cycles is one of the lessons from chapter 1. The chapter also advocates the benefits arising from diversification as a sound investment principle. Learning objective 1.1 ~ describe the concept of personal financial planning.

2. Generally accepted finance principles would support which of the following statements?

- *a. 'high return generally equals high risk'
- b. 'high return generally equals low risk'
- c. 'high risk is generally inversely related to high return'
- d. none of the above

Correct answer: a

Feedback: The risk-return trade-off is positive with a higher investment return generally only being possible when the investor is (financially) exposed to relatively higher risk levels. Learning objective 1.1 ~ describe the concept of personal financial planning.

3. The term personal financial planning generally implies:

- *a. the achievement of a financial outcome within a specified time period
- b. successfully gaining a job promotion
- c. winning the lottery within a specified time period
- d. both a and b

Correct answer: a

Feedback: Personal financial planning generally implies the achievement of a financial outcome within a specified time period. The other factors listed, although personal in nature, would not be expected to form part of the personal financial planning process. Learning objective 1.1 ~ describe the concept of personal financial planning.

4. The value of the expected shortfall the working population will have in building an adequate retirement benefit is termed the:
- a. Retirement Standard (RS)
 - *b. Retirement Savings Gap (RSG)
 - c. Target Retirement Benefit (TRB)
 - d. none of the above

Correct answer: b

Feedback: The Retirement Savings Gap is the term given to the expected shortfall in total retirement benefits as compared to expected accumulated retirement benefits. Learning objective 1.2 ~ explain why personal financial planning has gained in importance over the past few years.

5. In Australia, it is expected that by about 2050 there will be approximately:
- *a. 2.7 people in working age groups for each retired person
 - b. 3.5 people in working age groups for each retired person
 - c. 5.0 people in working age groups for each retired person
 - d. 4 males in working age groups and 2.5 females in working age groups for each retired person

Correct answer: a

Feedback: Statistical research in Australia provides evidence that by about 2050 there will be approximately 2.7 people in working age groups for each retired person. Learning objective 1.2 ~ explain why personal financial planning has gained in importance over the past few years.

6. Superannuation guarantee contributions in Australia are levied on:
- a. employers and the self-employed
 - *b. employers
 - c. employees
 - d. both b and c

Correct answer: b

Feedback: Superannuation guarantee contributions in Australia are only levied on employers with payment amounts based on the remuneration of eligible employees. Learning objective 1.2 ~ explain why personal financial planning has gained in importance over the past few years.

1. A period of negative savings where income does not meet the required level of expenditures could also be regarded as a(n):

- a. asset.
- b. increase in equity.
- c. savings surplus.
- *d. savings deficit.

Correct answer: d

Feedback: A savings deficit is another term for a period of negative savings. Learning Objective

2.1 ~ prepare personal financial statements.

2. A personal balance sheet would not generally include:

- *a. dividends received during a period.
- b. a motor vehicle.
- c. a collection of rare banknotes.
- d. both a and b.

Correct answer: a

Feedback: Dividends received during a period should be included in the personal cash flow statement not the personal balance sheet. Learning Objective 2.1 ~ prepare personal financial statements.

3. Which of the following is generally true about the calculation of an individual's equity or net worth ratio?

- a. For a young person or couple, it is expected that their equity ratio would be relatively low as they are likely to have a relatively high level of debt.
- b. For a young person or couple, it is expected that their equity ratio would be relatively high as they are likely to have a relatively low level of debt.
- c. The ratio shows the percentage of net worth to total assets.
- *d. Both a and c.

Correct answer: d

Feedback: The equity/net worth ratio is the ratio of net worth to total assets, expressed as a percentage and for a young person or couple, it is expected that their equity ratio would be relatively low as they are likely to have a relatively high level of debt. Learning Objective 2.2 ~ understand the purpose of analysing financial statements using ratio analysis.

4. Which of the following items would not generally be included in the calculation of an individual's liquidity ratio?

- *a. the total outstanding balance of a 25-year mortgage loan taken out in the last year
- b. debt repayments over the next 12 months
- c. amount of an outstanding telephone account
- d. both a and c

Correct answer: a

Feedback: The liquidity ratio includes the amount of debt which is to be repaid within the next 12 months and hence would not include the total outstanding balance of a mortgage loan with a remaining term of more than 12 months. Learning Objective 2.2 ~ understand the purpose of analysing financial statements using ratio analysis.

5. In the calculation of the savings ratio, savings is defined as:

- a. the amount left over after deducting all expenditures from income.
- b. the balance of an individual's funds on deposit at a bank at the end of a period.
- *c. the amount left over after deducting expenditure from income after we add back items that may be regarded as an investment.
- d. both a and b.

Correct answer: c

Feedback: Savings as defined in the savings ratio is the amount left over after deducting expenditure from income after we add back items that may be regarded as an investment. Learning Objective 2.2 ~ understand the purpose of analysing financial statements using ratio analysis.

6. The debt-service ratio shows monthly debt commitments as a percentage of:

- a. before-tax monthly income.
- b. total liabilities.
- *c. after-tax monthly income.
- d. none of the above.

Correct answer: c

Feedback: The debt-service ratio expressed as a percentage is calculated as the monthly debt commitment divided by after-tax monthly income. Learning Objective 2.2 ~ understand the purpose of analysing financial statements using ratio analysis.

1. The Commonwealth Government has exclusively levied income tax in Australia since:
- a. 1912
 - b. 1936
 - *c. 1942
 - d. 1997

Correct answer: c

Feedback: The Commonwealth Government has levied income tax in Australia since 1942 when it removed the taxing powers of the individual states. Learning objective 3.1 ~ identify the source of Australian taxation law.

2. Sources of taxation law includes:
- a. Income Tax assessment Act 1997 (ITAA97).
 - b. case law.
 - *c. both a and b.
 - d. Corporations Act.

Correct answer: c

Feedback: Source of taxation law includes both the ITAA97 and case law. Learning objective 3.1 ~ identify the source of Australian taxation law.

3. The term(s) used to describe an employee taking a lower cash salary in lieu of other non-cash benefits include(s):
- a. salary packaging.
 - b. salary sacrificing.
 - *c. both a and b.
 - d. none of the above.

Correct answer: c

Feedback: Both salary packaging and salary sacrificing are terms used to describe an employee taking a lower cash salary in lieu of other non-cash benefits. Learning objective 3.1 ~ identify the source of Australian taxation law.

4. Income tax is imposed on a taxpayer's:

- a. assessable income.
- *b. taxable income.
- c. tax offsets.
- d. taxable income less tax offsets.

Correct answer: b

Feedback: Income tax is imposed on a taxpayer's taxable income. Learning objective 3.2 ~ outline the different components of taxable income.

5. Which of the following are not tax deductible expenses?

- a. Expenses of a domestic nature.
- b. Expenses of a capital nature.
- c. Expenses incurred in earning exempt income.
- *d. All of the above.

Correct answer: d

Feedback: All of the expenses listed are not tax deductible expenses. Learning objective 3.2 ~ outline the different components of taxable income.

6. Marginal income tax rates for individuals in Australia are best described as:

- a. regressive.
- *b. progressive.
- c. constant.
- d. none of the above.

Correct answer: b

Feedback: As marginal income tax rates for individuals in Australia increase with increased levels of taxable income they are best described as progressive. Learning objective 3.2 ~ outline the different components of taxable income.

7. The Australian company income tax rate is:

- a. 10%
- b. 15%
- *c. 30%
- d. none of the above

Correct answer: c

Feedback: The Australian company income tax rate is 30%. Learning objective 3.2 ~ outline the different components of taxable income.

8. In Australia, the maximum marginal income tax rate imposed on unearned income by minors is:

- a. less than that of adult individual taxpayers.
- b. equal to that of adult individual taxpayers.
- *c. greater than that of adult individual taxpayers.
- d. the same as that of that of adult individual taxpayers at all levels of taxable income.

Correct answer: c

Feedback: The maximum marginal income tax rate imposed on unearned income by minors is 66%. This is significantly higher than the maximum marginal tax rate of 45% imposed on adult individual taxpayers. Learning objective 3.3 ~ calculate net tax payable for an individual, including levies and tax offsets.

9. Examples of income tax offsets in Australia include:

- a. subscriptions to professional journals.
- *b. imputation or franked credits.
- c. interest on loans used for investment purposes.
- d. all of the above.

Correct answer: b

Feedback: Imputation or franked credits are examples of income tax offsets. Subscriptions to professional journals and interest on loans used for investment purposes are examples of tax deductible expenses. Learning objective 3.3 ~ calculate net tax payable for an individual, including levies and tax offsets.

10. Where a shareholder is entitled to receive a dividend it will be included as part of their assessable income for the relevant financial year unless it is:
- a. a fully franked dividend.
 - b. an unfranked dividend.
 - c. subject to a dividend reinvestment scheme.
 - *d. none of the above.

Correct answer: d

Feedback: In each of the circumstances listed above the taxpayer will need to include the dividend entitlement as part of their assessable income for the relevant financial year. Learning objective 3.4 ~ outline the taxation implications associated with the returns generated from different forms of investment, including capital gains tax.

11. Where a company has paid no Australian company tax on profits from which a dividend is paid to shareholders, the dividend is said to be:
- a. fully franked.
 - b. not taxable.
 - c. subject to the maximum marginal personal tax rate in the hands of the shareholder.
 - *d. unfranked.

Correct answer: d

Feedback: Where a company has paid no Australian company tax on profits from which a dividend is paid to shareholders, the dividend is said to be unfranked. Learning objective 3.4 ~ outline the taxation implications associated with the returns generated from different forms of investment, including capital gains tax.

12. The taxable capital gain from the sale of an investment held for at least 12 months can potentially be calculated in which of the following ways?
- *a. Indexation method or discount method.
 - b. Sale price plus purchase price.
 - c. Purchase price less sale price.
 - d. None of the above.

Correct answer: a

Feedback: The capital gain from the sale of an investment held for at least 12 months can potentially be calculated by the indexation method or the discount method depending on the asset's acquisition date. Learning objective 3.4 ~ outline the taxation implications associated with the returns generated from different forms of investment, including capital gains tax.

13. Which of the following items are generally exempt from the capital gains tax?

- a. Main residence.
- b. Passenger motor cars.
- c. Gambling winnings.
- *d. All of the above.

Correct answer: d

Feedback: Generally none of the items listed are subject to the capital gains tax. Learning objective 3.4 ~ outline the taxation implications associated with the returns generated from different forms of investment, including capital gains tax.

14. Appropriate income splitting strategies for taxation purposes may include:

- a. transferring personal services income (PSI) to another person.
- b. transferring unearned income of at least \$5,000 from an adult taxpayer on a marginal tax rate of 32.5% to a minor.
- c. transferring assessable income from an adult taxpayer on a low marginal tax rate to an adult taxpayer on a high marginal tax rate.
- *d. none of the above.

Correct answer: d

Feedback: None of the above are appropriate income splitting strategies for taxation purposes. Learning objective 3.6 ~ explain the taxation implications of income splitting.

15. How much tax would be payable by the Lee Superannuation Fund with all members in accumulation mode which provided the following details for the 2013 financial year:

Sale of investments for a gross capital gain of \$20,000 that were held for 9 months.

Sale of investments for a gross capital gain of \$30,000 that were held for 3 years.

Other assessable income of \$100,000.

Allowable deductions of \$20,000.

- a. \$9,000
- b. *\$18,000
- c. \$19,500
- d. \$20,000

Correct answer: b

Feedback: The total tax payable will be calculated on the Lee Superannuation Fund's overall taxable income for the 2013 financial year. This will comprise of total assessable income from capital gains of \$40,000 as follows:

Sale of investments held for less than 12 months - \$20,000

1. The enterprising or aggressive investor is characterised by:
- a. speculation.
 - *b. their willingness to devote time and care to the selection of sound and attractive investments even though they may not be fully trained experts in the field.
 - c. the conservation of capital.
 - d. both a and b.

Correct answer: b

Feedback: The enterprising or aggressive investor is characterised by their willingness to devote time and care to the selection of sound and attractive investments even though they may not be fully trained experts in the field. Learning objective 4.1 ~ consider the general attributes of investors.

2. Cash investments aim to provide:
- a. a capital guarantee.
 - b. returns that fully offset the investor from the impacts of inflation.
 - *c. income, liquidity and stable returns.
 - d. both b and c.

Correct answer: c

Feedback: Cash investments aim to provide income, liquidity and stable returns. Despite its relative safety cash investments do not typically offer a capital guarantee and there is the risk that capital will not keep pace with inflation and hence lose value in real terms. Learning objective 4.2 ~ explain the broad investment classes.

3. Fixed-interest investments have the following characteristics:
- a. They cannot be traded on the secondary market before their maturity if an investor needs to convert their investment to cash.
 - *b. Interest is usually paid on a regular basis, but with some investments, the interest amount is factored into the final payment and offered as a discount security or with accumulated interest paid on maturity.
 - c. They are not subject to credit risk.
 - d. Both a and b.

Correct answer: b

Feedback: Interest on fixed-interest investments is usually paid on a regular basis, but with some investments, the interest amount is factored into the final payment and offered as a discount security or with accumulated interest paid on maturity. Non-government fixed-interest investments are subject to credit risk. Learning objective 4.2 ~ explain the broad investment classes.

4. With regard to listed property as an asset class, nominate the correct statement below:
- a. Both listed property trusts known as real estate investment trusts (A-REITs) and unlisted property trusts are pooled investments which hold a basket of properties in one or more of the property sectors and offer units to be purchased by investors.
 - b. Listed property trusts do not have similar risks to shares.
 - c. Property is a long-term investment with higher risk than fixed-interest investments but slightly lower risk, historically, than shares.
 - *d. Both a and c.

Correct answer: d

Feedback: Listed property trusts in fact have similar risks to shares. Learning objective 4.2 ~ explain the broad investment classes.

5. With regard to shares as an asset class, nominate the correct statement below:
- a. Shares are generally considered a relatively high-risk and high-return investment and are suitable for longer-term investors.
 - b. Shares have similar risks to listed property trusts.
 - c. By investing in companies providing unfranked dividends, Australian investors can derive tax-effective returns by means of the dividend imputation system under which, given companies have already paid tax at the company tax rate, investors can use franking credits to offset the amount of tax they pay on dividends.
 - *d. Both a and b.

Correct answer: d

Feedback: Australian shares can provide tax-effective returns by means of the dividend imputation system under which, given companies have already paid tax at the company tax rate, investors can use franking credits to offset the amount of tax they pay on dividends. These are described as franked dividends. Learning objective 4.2 ~ explain the broad investment classes.

1. In terms of the asset classes of cash and fixed interest, nominate the incorrect statement:
- a. Cash may be invested on the short term money market at the cash rate and is more liquid than fixed interest.
 - b. The essential feature of most fixed interest investments is that the interest rate is set at the start of the period and the principal is fixed.
 - *c. Cash is always regarded as a riskier investment than fixed interest.
 - d. None of the above.

Correct answer: c

Feedback: Cash is typically regarded as a less risky investment than fixed interest given its liquidity and lower risk exposure to changing values. Learning objective 5.1 ~ distinguish between cash and fixed-interest securities..

2. The relationship between nominal rates and real rates of return in times of rising inflationary levels results in:
- a. real rates exceeding nominal rates of return.
 - *b. nominal rates exceeding real rates of return.
 - c. both nominal and real rates of return being equal.
 - d. real rates being positively related to inflationary levels.

Correct answer: b

Feedback: In times of rising inflationary levels nominal rates will exceed real rates of return as real rates are reduced by the level of inflation. Learning objective 5.2 ~ understand the nature of and participants in the fixed-interest investment market.

3. Money market securities generally have a term:
- *a. less than that of the capital market.
 - b. greater than that of the capital market.
 - c. equal to that of the capital market.
 - d. of at least 5 years.

Correct answer: a

Feedback: Money market securities are short-term investments generally having a term of not more than 1-year whereas longer dated securities are traded in capital markets. Learning objective 5.3 ~ understand the different forms of direct fixed-interest investments.

4. The yield curve:
- a. typically has a normal shape which slopes downward to the right.
 - b. is a graph of interest rates relative to their risk.
 - *c. may be flat when short-term and long-term rates are virtually the same, and a humped yield curve may occur when medium-term rates are higher.
 - d. all of the above.

Correct answer: c

Feedback: The yield curve is a graph of interest rates relative to their time-to-maturity and may be flat when short-term and long-term rates are virtually the same, and a humped yield curve may occur when medium-term rates are higher. Learning objective 5.3 ~ understand the different forms of direct fixed-interest investments.

5. In terms of discount securities nominate the incorrect statement:
- a. Instruments such as BABs are discount securities in that their selling prices are less than (at a discount to) their face values.
 - b. The face value of the security is sold at a discount so that the amount paid on maturity is equal to the face value of the security.
 - *c. Pays a coupon or interest payment monthly until maturity.
 - d. All of the above.

Correct answer: c

Feedback: Discount securities do not make coupon payments as all interest is compounded and paid to the investor at maturity. Learning objective 5.3 ~ understand the different forms of direct fixed-interest investments.

6. The effect of a change in the general level of interest rates on the capital values of traded fixed-interest securities is such that:
- a. a fall in the general level of interest rates will normally promote decreases in the capital values of traded fixed-interest securities.
 - *b. holders of these securities will enjoy an appreciation in capital values when the general level of interest rates falls.
 - c. there is a positive relationship between the general level of interest rates and the capital values of traded fixed-interest securities.
 - d. both a and c.

Correct answer: b

Feedback: Holders of traded fixed-interest securities will enjoy an appreciation in capital values when the general level of interest rates fall. This is consistent with the inverse relationship between prices and interest rate movements. Learning objective 5.4 ~ appreciate the difference between discount and coupon securities and the effect of a change in interest rates.

7. Contributing ordinary shares:

- a. may be cumulative, participating or redeemable.
- b. are shares issued on the understanding that dividends will not be payable until a future specified date when a particular project becomes profitable.
- c. are completely paid up when initially issued.
- *d. are not completely paid up when initially issued.

Correct answer: d

Feedback: Contributing shares are not completely paid up when initially issued. Learning objective 5.5 ~ understand the nature of and participants in the share market.

8. Characteristics of preference shares include:

- a. cumulative shareholders retaining priority over profits until all outstanding dividends have been paid.
- b. participating shareholders having priority for dividends and have potential access to additional dividends after ordinary shareholders have been paid.
- c. redeemable shareholders having their shares bought back or redeemed at their face value at the discretion of the company at a certain date.
- *d. all the above.

Correct answer: d

Feedback: Characteristics of the various types of preference shares differ. Ordinary preference shareholders have a claim only on profits for a particular year. Cumulative shareholders retain priority over profits until all outstanding dividends have been paid. Participating shareholders have priority for dividends and have potential access to ad

1. A characteristic of property is:
- a. it is generally regarded as an intangible form of investment.
 - *b. it is generally regarded as an illiquid form of investment.
 - c. returns may comprise income but not capital.
 - d. entry costs and exit costs can be relatively low.

Correct answer: b

Feedback: An investment in property is generally regarded as an illiquid form of investment as it is difficult to realise within a short period of time. Learning objective 6.1 ~ outline the qualities and characteristics of property for investment.

2. An example of direct property investment is:
- a. John is a registered investor in a listed real estate investment trust.
 - b. Jill holds units in an unlisted property trust.
 - *c. James is the registered owner of a commercial property.
 - d. Jenny is a member of a private property syndicate.

Correct answer: c

Feedback: James holds a direct property investment as the registered owner of a commercial property. All the others are examples of an indirect investment in property. Learning objective 6.2 ~ describe the different forms of property investment.

3. Increases in capital city house prices may be the result of:
- *a. the policy of state governments to limit the supply of land by means of zoning.
 - b. lower levels of immigration.
 - c. the threat of a higher taxation policy on property investment.
 - d. a decrease in office jobs in city areas.

Correct answer: a

Feedback: Increases in capital city house prices may be the result of state governments limiting the supply of land around capital cities by means of zoning (which means that tracts of land are not available for housing development). Learning objective 6.2 ~ describe the different forms of property investment.

4. Characteristics of an A-REIT include:
- a. units being issued to investors on establishment.
 - b. prices fluctuating in accordance with general market sentiment on the ASX.
 - c. investors receiving distributions in the form of fully-franked dividends.
 - *d. both a and b.

Correct answer: d

Feedback: As a security listed on the ASX, characteristics of an A-REIT include prices fluctuating in accordance with general market sentiment on the ASX and investors being issued units as evidence of their investment. Learning objective 6.3 ~ describe the features and benefits of property funds.

5. As compared to an A-REIT, an unlisted property trust is likely to:

- a. be smaller in size holding less properties.
- b. have relatively more debt as a proportion of the total trust assets.
- *c. both a and b.
- d. none of the above.

Correct answer: c

Feedback: As compared to an A-REIT, an unlisted property trust is likely to be smaller in size holding less properties and have relatively more debt as a proportion of the total trust assets. Learning objective 6.3 ~ describe the features and benefits of property funds.

6. The NTA of an unlisted property trust assuming all other items are held constant:

- a. will increase in situations where the fund manager decides to repay principal on outstanding debt from surplus cash holdings.
- b. will increase in situations where the fund manager decides to revalue upwards the amount included in the balance sheet for goodwill attached to a prominent property held by the fund.
- *c. is used by fund managers to determine the current value of units in the trust before adjusting for any management fees.
- d. both a and c.

Correct answer: c

Feedback: The net tangible assets (NTA) of an unlisted property trust assuming all other items are held constant is used by fund managers to determine the current value of units in the trust before adjusting for any management fees. The repayment of principal or the revaluation of an intangible asset such as goodwill will not affect the NTA of the trust. Learning objective 6.3 ~ describe the features and benefits of property funds.

7. Mortgage funds:

- a. provide opportunities for capital growth returns for investors.
- b. will increase their loan-to-value ratio the relatively higher the risk of the borrower.
- *c. are a relatively illiquid investment at least in the early periods after issue.
- d. both a and b.

Correct answer: c

Feedback: Given that many mortgage funds require a 12-month period of investment before allowing for redemption they would be considered to be a relatively illiquid investment. Learning objective 6.3 ~ describe the features and benefits of property funds.

8. The income to be declared in the income tax return which relates to property investment consists of the gross rental income from the tenant. The deductions that can offset the income include:

- *a. interest on the loan taken out to purchase the property.
- b. a portion of the set-up costs of borrowing the funds which are allowed to be deducted over a 3-year period.
- c. a capital depreciation allowance of 4.0% of the cost of the building is allowable for 40 years.
- d. a capital expense such as the addition of an air conditioner to the property.

Correct answer: a

Feedback: Most property owners borrow money to acquire an investment property and under taxation rules, are allowed to deduct the interest component as a cost of earning the income. Borrowing costs are deductible over a 5-year period and a depreciation allowance of 2.5% of the cost of the building is allowable for a 40-year period. Capital expenses are not available directly as an allowable deduction. Learning objective 6.4 ~ explain the taxation effects of investing in property.

9. Property trusts:

- a. are taxpaying entities.
- *b. can make tax-deferred distributions to individual unitholders who benefit differentially on an after-tax basis depending on their personal marginal tax rate.
- c. can withhold income distributions to unitholders in any year depending on the trusts expected cash flow requirements for the following period.
- d. both b and c.

Correct answer: b

Feedback: Property trusts can make tax-deferred distributions to individual unitholders who benefit differentially on an after-tax basis depending on their personal marginal tax rate. They are not taxpaying entities and must make income distributions at least once per year. Learning objective 6.4 ~ explain the taxation effects of investing in property.

6. In finance, risk may be defined as:

- a. the chance of a loss of capital.
- b. the chance of loss of purchasing power.
- c. the variability of returns.
- *d. all of the above.

Correct answer: d

Feedback: Some of the more common definitions of risk are the chance of loss of capital, the chance of loss of purchasing power or the variability of the returns associated with the given asset. Learning objective 4.3 ~ understand the risk and return relationship.

7. Standard deviation:

- a. is equal to the variance squared.
- *b. measures the variability of returns around the expected return.
- c. is found by taking the square root of expected return.
- d. all of the above.

Correct answer: b

Feedback: Standard deviation measures the variability of returns around the expected return.

Learning objective 4.3 ~ understand the risk and return relationship.

8. To be __% confident that the actual returns will lie in a given range, we simply determine the values of the expected return plus two standard deviations and the expected return minus two standard deviations, assuming the returns are normally distributed.

- a. 42
- b. 68
- *c. 95
- d. 99

Correct answer: c

Feedback: To be 95% confident that the actual returns will lie in a given range, we simply determine the values of the expected return plus two standard deviations and the expected return minus two standard deviations, assuming the returns are normally distributed. Learning objective 4.3 ~ understand the risk and return relationship.

1. In terms of the asset classes of cash and fixed interest, nominate the incorrect statement:
- a. Cash may be invested on the short term money market at the cash rate and is more liquid than fixed interest.
 - b. The essential feature of most fixed interest investments is that the interest rate is set at the start of the period and the principal is fixed.
 - *c. Cash is always regarded as a riskier investment than fixed interest.
 - d. None of the above.

Correct answer: c

Feedback: Cash is typically regarded as a less risky investment than fixed interest given its liquidity and lower risk exposure to changing values. Learning objective 5.1 ~ distinguish between cash and fixed-interest securities..

2. The relationship between nominal rates and real rates of return in times of rising inflationary levels results in:
- a. real rates exceeding nominal rates of return.
 - *b. nominal rates exceeding real rates of return.
 - c. both nominal and real rates of return being equal.
 - d. real rates being positively related to inflationary levels.

Correct answer: b

Feedback: In times of rising inflationary levels nominal rates will exceed real rates of return as real rates are reduced by the level of inflation. Learning objective 5.2 ~ understand the nature of and participants in the fixed-interest investment market.

3. Money market securities generally have a term:
- *a. less than that of the capital market.
 - b. greater than that of the capital market.
 - c. equal to that of the capital market.
 - d. of at least 5 years.

Correct answer: a

Feedback: Money market securities are short-term investments generally having a term of not more than 1-year whereas longer dated securities are traded in capital markets. Learning objective 5.3 ~ understand the different forms of direct fixed-interest investments.

4. The yield curve:

- a. typically has a normal shape which slopes downward to the right.
- b. is a graph of interest rates relative to their risk.
- *c. may be flat when short-term and long-term rates are virtually the same, and a humped yield curve may occur when medium-term rates are higher.
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- a. Instruments such as BABs are discount securities in that their selling prices are less than (at a discount to) their face values.
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- c. there is a positive relationship between the general level of interest rates and the capital values of traded fixed-interest securities.
- d. both a and c.

Correct answer: b

Feedback: Holders of traded fixed-interest securities will enjoy an appreciation in capital values when the general level of interest rates fall. This is consistent with the inverse relationship between prices and interest rate movements. Learning objective 5.4 ~ appreciate the difference between discount and coupon securities and the effect of a change in interest rates.

7. Contributing ordinary shares:

- a. may be cumulative, participating or redeemable.
- b. are shares issued on the understanding that dividends will not be payable until a future specified date when a particular project becomes profitable.
- c. are completely paid up when initially issued.
- *d. are not completely paid up when initially issued.

Correct answer: d

Feedback: Contributing shares are not completely paid up when initially issued. Learning objective 5.5 ~ understand the nature of and participants in the share market.

8. Characteristics of preference shares include:

- a. cumulative shareholders retaining priority over profits until all outstanding dividends have been paid.
- b. participating shareholders having priority for dividends and have potential access to additional dividends after ordinary shareholders have been paid.
- c. redeemable shareholders having their shares bought back or redeemed at their face value at the discretion of the company at a certain date.
- *d. all the above.

Correct answer: d

Feedback: Characteristics of the various types of preference shares differ. Ordinary preference shareholders have a claim only on profits for a particular year. Cumulative shareholders retain priority over profits until all outstanding dividends have been paid. Participating shareholders have priority for dividends and have potential access to ad

1. According to the Australian Securities and Investments Commission (ASIC), a managed investment scheme (MIS), commonly known as a managed fund, exists where:
- a. people are brought together to contribute money to obtain an interest in the scheme.
 - b. money is pooled together with other investors or used in a common enterprise.
 - c. a responsible entity operates the scheme and hence investors do not have day-to-day control over the operation of the scheme.
 - *d. all of the above.

Correct answer: d

Feedback: All of the above issues are consistent with the ASIC assessment of a MIS. Learning objective 7.1 ~ discuss the growth and characteristics of the managed fund industry in Australia.

2. The main contributors to the overall growth in funds under management has/have been the:
- a. deregulation of financial markets in the 1980s.
 - b. increase in superannuation contributions made by employers since 1990.
 - *c. both a and b.
 - d. an increase in the savings ratio in the domestic economy.

Correct answer: c

Feedback: The main contributors to the overall growth in funds under management have been the deregulation of financial markets in the 1980s and the increase in superannuation contributions made by employers since 1990. Learning objective 7.1 ~ discuss the growth and characteristics of the managed fund industry in Australia.

3. Investing in asset classes directly or indirectly via managed funds results in:
- a. different risk outcomes but the same return relationships.
 - b. the same risk outcomes but different return relationships.
 - *c. the same risk and return relationships.
 - d. all of the above.

Correct answer: c

Feedback: The same risk and return relationship exists for investing in asset classes directly or indirectly via managed funds. Learning objective 7.1 ~ discuss the growth and characteristics of the managed fund industry in Australia.

4. Managed funds are popular because they allow investors to gain:
- a. access to a wide range of different asset classes.
 - b. exposure to different industry segments.

- c. diversification across a range of different investment types.
- *d. all of the above.

Correct answer: d

Feedback: Managed funds are popular because they allow investors to gain: access to a wide range of different asset classes (cash, fixed interest, property and shares); exposure to different industry segments (e.g. commercial property or Asian shares) and; effective diversification across a range of different investment types (e.g. a balanced fund which invests into a mix across and within the main asset classes). Learning objective 7.1 ~ discuss the growth and characteristics of the managed fund industry in Australia.

5. The constitution of a managed investment scheme (MIS) includes matters such as:

- a. the cost of buying interests in the scheme.
- b. the name of the auditor of the MIS.
- *c. both a and b.
- d. none of the above.

Correct answer: a

Feedback: The cost of buying interests (typically units) in the MIS is included in the constitution of the MIS, however details such as the name of the auditor of the MIS would not be included in the constitution. Learning objective 7.2 ~ explain the regulatory environment and the structure of managed investment schemes (MISs) in Australia.

6. The relationship that exists between unsystematic risk and the number of securities held in an investment portfolio is:

- a. non applicable as no relationship exists.
- *b. inverse until unsystematic risk is removed.
- c. positive until unsystematic risk is removed.
- d. inverse up to a maximum of 10 securities and then positive.

Correct answer: b

Feedback: The relationship that exists between unsystematic risk and the number of securities held in an investment portfolio is inverse as additional securities added to an investment portfolio will reduce unsystematic risk until it is removed entirely. Learning objective 7.3 ~ outline the advantages, downsides and risks associated with investing into managed funds

7. With managed funds it is NOT possible to diversify across:

- a. asset classes.
- b. management styles.
- c. investment sectors.

- *d. none of the above.

Correct answer: d

Feedback: It is possible with managed funds to diversify across each of: asset classes, management styles and investment sectors. Learning objective 7.3 ~ outline the advantages, downsides and risks associated with investing into managed funds.

8. Beta risk is particularly relevant for fund managers adopting which investment approach?

- *a. Passive investing.
- b. Active investing.
- c. Contrarian investing.
- d. None of the above.

Correct answer: a

Feedback: Beta risk is particularly relevant for fund managers adopting a passive investment approach given that their focus is on matching the performance of the specific index that is tracked. Learning objective 7.3 ~ outline the advantages, downsides and risks associated with investing into managed funds

9. The indirect cost ratio (ICR):

- *a. measures management costs not deducted directly from investors' account balances to the average net assets of the fund.
- b. measures the average net assets of the fund divided by the management costs deducted directly from investors' account balances.
- c. approximates current performance bonuses.
- d. all of the above.

Correct answer: a

Feedback: The indirect cost ratio (ICR) measures the ratio of management costs not deducted directly from investors' account balances to the average net assets of the fund. Learning objective 7.4 ~ explain the typical fee structure of a managed fund.

10. The management expense ratio (MER) is a ratio of fees charged to the:

- a. book value of assets under management.
- *b. market value of assets under management.
- c. unit price of the fund.
- d. none of the above.

Correct answer: b

Feedback: The MER is a ratio of fees charged to the market value of assets under management and is the principal parameter to compare the cost effectiveness of fund managers. Learning objective 7.4 ~ explain the typical fee structure of a managed fund.

11. Unlisted managed funds:

- a. are closed ended structures.
- b. are structured so that a prospective unitholder will purchase units from other unitholders.
- *c. operate as a trust structure and issues units to investors.
- d. all of the above.

Correct answer: c

Feedback: Unlisted managed funds are the most common type of managed investment scheme available in Australia. Unlisted managed funds are open ended structures, meaning that the fund itself can continually issue new units when new monies are invested into the fund and buy back existing units when an investor wishes to sell their units. Unlisted managed funds operate as trust structures and issue units to investors. An investor purchases and sells units in the fund directly from the fund itself rather than from existing members or unit holders. Learning objective 7.5 ~ determine how to select a managed fund for investing.

12. The underlying value of units in an unlisted managed fund is based on the:

- *a. net prevailing market value of the fund's investment portfolio divided by the number of units issued.
- b. supply and demand for those units.
- c. inflation- adjusted value of the fund's net assets.
- d. none of the above.

Correct answer: a

Feedback: The underlying value of units in the fund is based on the prevailing market value of the fund's investment portfolio. Whenever new monies are invested into the fund, new units are created to match the current market buying price. This is represented by the funds' net asset value. The net asset value (NAV) is the value of the fund's assets less the value of its liabilities. Each time units are sold or redeemed, investments within the fund are sold at current market selling prices. Learning objective 7.5 ~ determine how to select a managed fund for investing.

1. If an investor believes that the price of an asset is going to decrease in the future they would:
- a. prefer to currently own the asset and hold
 - b. prefer not to currently own the asset if they are long-term investor
 - c. prefer to sell the asset if currently held
 - *d. both b and c

Correct answer: d

Feedback: If an investor believes that the price of an asset is going to decrease in the future they would either prefer not to currently own the asset if they are long-term investor or sell the asset if currently held. Learning Objective 8.1 ~ explain the concept of leveraged investing.

2. When an investor invests in an income producing asset:
- *a. interest on any loans associated with the income producing asset are tax deductible
 - b. interest is not a tax deductible expense
 - c. interest may be deducted from the income derived from an income producing to the extent of the level of income less any other associated expenses
 - d. none of the above

Correct answer: a

Feedback: When an investor invests in an income-producing asset, interest on any loans associated with the income producing asset are tax deductible. Learning Objective 8.2 ~ outline how gearing can be used to magnify returns.

3. Negative gearing arises where:
- a. borrowings are not undertaken
 - b. annual income from an investment is greater than the deductible expenses
 - c. borrowings are on an interest-only basis
 - *d. none of the above

Correct answer: d

Feedback: When the annual income from an investment is less than the deductible expenses it is said to be negatively **gearing**. Learning Objective 8.3 ~ discuss the income tax consequences of gearing.

4. Over time, an investor making principal and interest loan repayments on an investment using borrowed funds which is increasing in value would expect their gearing ratio to:
- a. increase
 - *b. decrease
 - c. remain unchanged
 - d. either a or c

Correct answer: b

Feedback: The gearing ratio, as its name suggests, generally expresses the ratio of debt to capital so over time the gearing ratio would decrease given the reduction in the debt balance and the increase in asset values. Learning Objective 8.3 ~ discuss the income tax consequences of gearing.

5. The presence of rising asset prices and concessional tax rates on capital gains in a stable interest rate environment is more preferable for a negatively geared share investment than which of the following economic conditions?
- a. stable asset prices and rising interest rates
 - b. rising asset prices and rising interest rates
 - c. decreasing asset prices and relatively high tax rates on capital gains
 - *d. all of the above

Correct answer: d

Feedback: Each of the above economic conditions would not be as positive an investment environment as rising asset prices and concessional tax rates on capital gains in a stable interest rate environment. Learning Objective 8.4 ~ discuss the capital gains tax consequences of gearing.

6. The lender in a mortgage contract is referred to as the:
- *a. mortgagee
 - b. pledger
 - c. both a and b
 - d. mortgagor

Correct answer: a

Feedback: The lender in a mortgage contract is referred to as the mortgagee. Learning Objective 8.5 ~ explain how mortgages work.

7. Some variations of standard interest and principal mortgages available to investors include:

- a. equity release loans, where surplus equity above agreed levels may be withdrawn
- b. interest-only loans with the entire principal payable at the end of the loan
- c. reverse mortgages
- *d. all of the above

Correct answer: d

Feedback: All of the above are variations of a standard interest and principal mortgage. Learning Objective 8.5 ~ explain how mortgages work.

8. Loan-to-valuation ratios (LVRs) are set by:

- *a. lenders
- b. borrowers
- c. the Reserve Bank of Australia (RBA)
- d. none of the above

Correct answer: a

Feedback: LVRs are set by lenders according to their perception of the underlying risk and inherent price volatility of the underlying assets invested in. Learning Objective 8.6 ~ outline margin lending.

9. Where the value of secured assets falls below an agreed debt-to-asset ratio for a margin loan, what action will be required to be taken?

- a. the lender must meet a margin call on the loan
- *b. the borrower must meet a margin call on the loan
- c. the lender will require the loan to be discharged in full
- d. none of the above

Correct answer: b

Feedback: Where the value of secured assets falls below an agreed debt-to-asset ratio for a margin loan, the borrower will be required to meet a margin call on the loan. Learning Objective 8.6 ~ outline margin lending.

1. Gambling from the gambler's perspective is a good example of what type of risk?
- a. Pure risk.
 - *b. Speculative risk.
 - c. Arbitrage risk.
 - d. Property risk.

Correct answer: b

Feedback: Gambling from the gambler's perspective is a good example of speculative risk as there is a chance of loss or gain. Learning Objective 9.1 ~ explain how risk can be classified and describe the risk management process.

2. Methods of minimising insurance premiums from the insurer's perspective include:
- a. reducing the average risk profile of new entrant.
 - b. increasing the average risk profile of new entrant.
 - c. reducing the total number of entrants.
 - *d. both a and c.

Correct answer: d

Feedback: The insurer can seek to minimise insurance premiums by reducing the average risk profile of new entrants and/or reducing the total number of entrants. Learning Objective 9.2 ~ explain the key concepts which underpin insurance.

3. In Australia, federal government regulations prohibit health insurance providers from charging higher insurance premiums for people who:
- a. are obese.
 - b. smoke.
 - c. drink alcohol.
 - *d. all of the above.

Correct answer: d

Feedback: As a result of federal government discrimination laws, health insurance providers in Australia cannot charge higher insurance premiums for people who are obese, smoke and/or drink alcohol. Learning Objective 9.2 ~ explain the key concepts which underpin insurance.

4. Life insurance products can:
- *a. provide for insured amounts not necessarily related to the actual loss.
 - b. be regarded as indemnity-type products.
 - c. both a and b.
 - d. none of the above.

Correct answer: a

Feedback: Life Insurance products can provide for insured amounts not necessarily related to the actual loss so they would not be regarded as an indemnity-type product. Learning Objective 9.2 ~ explain the key concepts which underpin insurance.

5. Severity limitations in insurance contracts:

- a. seek to transfer the financial risk to the insurer.
- b. limit the liability of the insured.
- *c. none of the above.
- d. may include the removal of policy excesses.

Correct answer: c

Feedback: Severity limitations in insurance contracts seek to limit the liability of the insurer which may include exclusion of claims under particular circumstances, such as a waiting period for income protection policies or policy excesses. Learning Objective 9.2 ~ explain the key concepts which underpin insurance.

6. The multiple approach to calculating the needs of dependants regarding life insurance:

- a. is quite straightforward and can be used to calculate the total amount of cover necessary.
- b. has an underlying assumption that the needs of all people are very similar.
- c. generally ignores the individual's resources and commitments.
- *d. all of the above.

Correct answer: d

Feedback: The multiple approach includes each of the factors discussed above. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

7. When assessing how personal risk losses can be financed, which of the following alternatives are not possible in Australia?

- a. Meeting losses from personal financial resources.
- b. Transferring risks to a third party.
- *c. Applying for assistance from the personal risk loss relief fund.
- d. None of the above.

Correct answer: c

Feedback: Personal risk losses cannot be reduced by applying for assistance from the personal risk loss relief fund as such organisation does not exist in Australia. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

8. A terminal illness benefit is:
- a. typically included in a basic term life policy.
 - b. paid as a regular income for a specified period.
 - c. generally limited to a total payment of \$1 million.
 - *d. both a and c.

Correct answer: d

Feedback: Terminal illness benefits are typically included in a basic term life policy providing for a specified lump-sum payment which is generally limited to \$1 million. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

9. Indexing a sum insured for life cover typically:
- *a. is automatic and does not require a medical examination.
 - b. will cease if the insured declines the indexation increase 5 times in succession.
 - c. will cease if the insured declines the indexation increase 6 times in succession.
 - d. both a and c.

Correct answer: a

Feedback: Indexing a sum insured for life cover typically is automatic and does not require a medical examination. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

10. The feature of guaranteed renewal for a term life policy protects the:
- *a. insured.
 - b. insurer.
 - c. both a and b.
 - d. the Insurance Council.

Correct answer: a

Feedback: Guaranteed renewal for a term life policy protects the insured as, subject to meeting the premium payments, it allows only the insured to terminate the policy. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

11. The convertibility option for term life insurance policies provides for:
- a. such clause to be included in the relevant policy document subject to a medical examination.
 - b. the insured to convert the current policy into ordinary shares at a discount to the current share price.
 - *c. the insured to convert the current policy into any other type of insurance policy so long as the sum insured does not alter.
 - d. both a and c.

Correct answer: c

Feedback: The convertibility option for term life insurance policies provides for insurance for the insured to convert the current policy into any other type of insurance policy so long as the sum insured does not alter. This option does not require a medical examination. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

12. Benefit payments from an income protection policy will generally be:
- *a. reduced by any sick leave or compensation payments received by the insured during the claim period.
 - b. unaffected by any sick-leave or compensation payments received by the insured during the claim period.
 - c. increased by any investment income earned during the claim period.
 - d. none of the above.

Correct answer: a

Feedback: Benefit payments from an income protection policy will generally be reduced by any sick leave or compensation payments received by the insured during the claim period. Investment income earned during the claim period would not affect benefit payments. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

13. Term life insurance policies taken out through a superannuation fund where salary sacrifice contributions are arranged to fund the amount of the premium payment via the employer will:
- a. be subject to a contributions tax of 15% by the recipient superannuation fund.
 - b. be tax deductible to the employer as concessional superannuation contributions.
 - c. be paid out on death tax-free to a dependant.
 - *d. both b and c.

Correct answer: d

Feedback: Term life insurance policies taken out through a superannuation fund where salary sacrifice contributions are arranged to fund the amount of the premium payment via the employer will be tax deductible to the employer as concessional superannuation contributions.

Payouts from this policy are tax-free to a dependant on the death of the insured. No contributions tax will be held by the recipient superannuation fund where the amount of the salary sacrifice contribution is equal to the amount of the term life insurance premium. Learning Objective 9.3 ~ identify and evaluate the personal risks to which individuals are exposed.

14. In the event of a claim, an indemnity value house and contents policy will:
- a. provide a payout equal to the market value of the loss incurred at the time of the loss.
 - b. include the effects of depreciation in establishing a value for the items subject to the claim.
 - *c. both a and b.
 - d. replace all items at their current replacement value.

Correct answer: c

Feedback: In the event of a claim, an indemnity value house and contents policy will provide a payout equal to the market value of the loss incurred at the time of the loss. This will incorporate the effects of depreciation in establishing a value for the items subject to the claim. Learning Objective 9.4 ~ identify and evaluate property risks in relation to house and contents.

15. The effect of the 'co-insurance' or 'average' clause included in a house and contents policy is to:
- a. increase payouts to policyholders if they are over-insured at the time of making a claim.
 - *b. decrease payouts to policyholders if they are under-insured at the time of making a claim.
 - c. both a and b .
 - d. ensure that a claim rejection arising from late payment can be overturned by the courts.

Correct answer: b

Feedback: The effect of the 'co-insurance' or 'average' clause included in a house and contents policy is to decrease payouts to policyholders if they are under-insured. This clause reduces the amount of the loss in proportion to the amount of the under-insurance. Learning Objective 9.4 ~ identify and evaluate property risks in relation to house and contents.

16. Compulsory third party (CTP) motor vehicle insurance covers:

- *a. the legal liability of the driver arising out of the use of the vehicle.
- b. the damage to the vehicle, whether for repairs or if the vehicle is a total loss.
- c. the insured or the driver (driving with the insured's consent) for their legal liability in relation to property damage as a result of an accident arising out of the use of the vehicle.
- d. both a and c.

Correct answer: a

Feedback: A CTP policy provides for the legal liability of the driver arising out of the use of the vehicle. Learning Objective 9.5 ~ identify and evaluate property risks in relation to house and contents.

17. Consumer credit insurance policies will exclude claims by the insured in which of the following circumstances?

- *a. The insured has a drug or alcohol addiction.
- b. The death of the insured.
- c. Sickness of the insured extending beyond a period of 12 months.
- d. Both a and c.

Correct answer: a

Feedback: Consumer credit insurance policies will exclude claims where the insured has a drug or alcohol addiction. Learning Objective 9.6 ~ identify and evaluate personal and property risks with respect to sickness and accident, consumer credit and travel insurance.

18. The areas from which a legal liability can arise include:

- a. common law.
- b. statute law.
- c. contract.
- *d. all of the above.

Correct answer: d

Feedback: Legal liability can arise from the common law, statute law and from the law of contract. Learning Objective 9.7 ~ identify and evaluate liability risks.

19. In Australia:

- a. there is a national compensation arrangement for consumers of financial services.
- b. holders of an Australian Financial Services Licence (AFSL) can elect whether or not to hold professional indemnity insurance or alternatively pay an additional licence fee to the government.
- c. professional indemnity insurance provides the public with a consumer compensation scheme.
- *d. none of the above.

Correct answer: d

Feedback: There is no national compensation arrangement for consumers of financial services with professional indemnity insurance being compulsory for AFSL holders although its purpose is not to provide the public with a consumer compensation scheme. Learning Objective 9.7 ~ identify and evaluate liability risks.

20. Risk management includes the following steps, in order, to be addressed:

- *a. identifying risks, developing control and financing measures, implementing agreed upon plans and on-going review.
- b. implementing agreed upon plans, identifying risks, developing control and financing measures and on-going review.
- c. developing control and financing measures, implementing agreed upon plans, identifying risks and on-going review.
- d. developing control and financing measures, identifying risks, implementing agreed upon plans and on-going review.

Correct answer: a

Feedback: Identifying risks, developing control and financing measures, implementing agreed upon plans and ongoing review are the generally accepted risk management steps, in order, to be followed. Learning Objective 9.8 ~ explain the need for an on-going review process.

19. The 'in-house' assets rule exempts:

- a. residential property.
- *b. business real property.
- c. both a and b.
- d. unlisted Australian securities.

Correct answer: b

Feedback: The 'in-house' assets rule exempts business real property and listed securities but not residential property or unlisted Australian securities. Learning Objective 10.7 ~ discuss the main investment constraints that apply to superannuation.

2. The fiduciary responsibilities of superannuation fund trustees in Australia are based on the:

- a. common law.
- b. Superannuation Industry (Supervision) Act.
- *c. both a and b.
- d. the APRA Act.

Correct answer: c

Feedback: In Australia the fiduciary responsibilities of superannuation fund trustees are based on the common law and the SIS Act. Learning Objective 10.3 ~ outline the main legislative provisions that regulate superannuation.

3. To be a complying superannuation fund the trust deed provisions of the fund:

- a. must be equivalent to the SIS Act.
- *b. may be narrower than the SIS Act.
- c. may be broader than the SIS Act.
- d. have no direct relationship with the SIS Act.

Correct answer: b

Feedback: To be a complying superannuation fund the trust deed provisions for a complying superannuation fund may be narrower than the SIS Act however they cannot be broader than the SIS Act. Learning Objective 10.3 ~ outline the main legislative provisions that regulate superannuation.

4. For an accumulation-based superannuation account, the investment risk is borne:
- a. equally by the superannuation fund member and the employer.
 - b. by the employer.
 - *c. by the superannuation fund member.
 - d. 25% by the superannuation fund member and 75% by the employer.

Correct answer: c

Feedback: Given the nature of accumulation-based superannuation accounts whereby positive returns increase the balance of the account and negative returns decrease the balance of the account, the investment risk is fully borne by the superannuation fund member. Learning Objective 10.4 ~ differentiate between accumulation accounts and defined benefit schemes and discuss the major providers of superannuation funds.

5. An underfunded defined benefit superannuation scheme is most likely to present adverse financial outcomes for which of the following parties?
- *a. The employer.
 - b. The superannuation fund member.
 - c. The fund actuary.
 - d. None of the above.

Correct answer: a

Feedback: Given that most defined benefit superannuation schemes require the employer to make good any funding shortfall, the risk of such funds becoming underfunded will lie with the employer. Learning Objective 10.4 ~ differentiate between accumulation accounts and defined benefit schemes and discuss the major providers of superannuation funds.

6. Unfunded superannuation schemes in Australia:
- a. represent a financial liability to the fund employer/sponsor.
 - b. are typically limited to public sector schemes.
 - *c. both a and b.
 - d. none of the above.

Correct answer: c

Feedback: Unfunded superannuation schemes in Australia are typically limited to public sector schemes and represent a financial liability to the fund employer/sponsor, in this case the government. Learning Objective 10.4 ~ differentiate between accumulation accounts and defined benefit schemes and discuss the major providers of superannuation funds.

7. In Australia, the rate of superannuation coverage for employees and the minimum rate of superannuation contributions required under the superannuation guarantee system in the last 25 years have:
- *a. both increased substantially.
 - b. both decreased substantially.
 - c. remained relatively constant.
 - d. had no relationship.

Correct answer: a

Feedback: The rate of superannuation coverage in Australia now extends to over 90% of the workforce (from approximately 40% in the late 1980s) and the minimum superannuation guarantee rate for superannuation contributions has more than trebled from an initial 3% in 1992. Learning Objective 10.5 ~ outline the historical development of the Australian superannuation system.

8. Tax-free lump sum withdrawals from superannuation accounts by individuals are generally available:
- a. once the individual reaches 55 years of age.
 - *b. once the individual reaches 60 years of age.
 - c. is only available to a family member on the death of the individual.
 - d. none of the above.

Correct answer: b

Feedback: Tax-free lump sum withdrawals from superannuation accounts by individuals are generally available once the individual reaches 60 years of age. Tax-free lump sum death benefits may be payable to family members depending on whether they meet the definition of a dependent. Learning Objective 10.5 ~ outline the historical development of the Australian superannuation system.

16. Salary sacrifice superannuation contributions are:
- *a. tax-deductible to the employer making the contribution.
 - b. treated as tax-free upon receipt by the recipient superannuation fund.
 - c. a decision that must be made retrospectively.
 - d. all of the above.

Correct answer: a

Feedback: Salary sacrifice superannuation contributions are tax-deductible as concessional by the employer making the contribution. These contributions are taxed at 15% when received by the fund and the process of salary sacrificing superannuation contributions must be arranged between the employee and the employer prospectively. Learning Objective 10.6 ~ differentiate between concessional and non-concessional contributions to superannuation.

17. An eligible superannuation contribution made on behalf of a spouse has which of the following features?
- a. Is tax-deductible to the spouse making the contribution.
 - *b. Is treated as a tax-free component of the spouse upon withdrawal from a superannuation fund.
 - c. Is taxed at a concessional rate of 10% when received by the fund.
 - d. All of the above.

Correct answer: b

Feedback: An eligible superannuation contribution made on behalf of a spouse is treated as a tax-free component of the spouse upon withdrawal from a superannuation fund. Learning Objective 10.6 ~ differentiate between concessional and non-concessional contributions to superannuation.

18. Pursuant to the superannuation choice of fund rules:
- a. the employer will nominate a default fund on the standard choice form provided to the employee.
 - b. the employer will not nominate a default fund on the standard choice form provided to the employee.
 - c. the employee can change their nominated fund at least once every 12 months.
 - *d. both a and c.

Correct answer: d

Feedback: The superannuation choice of fund rules requires the employer to nominate a default fund on the standard choice form and the employee can change their nominated fund at least once every 12 months. Learning Objective 10.6 ~ differentiate between concessional and non-concessional contributions to superannuation.

1. An APRA approved trustee can be appointed to run a:
- *a. small APRA fund.
 - b. SMSF.
 - c. both a and b.
 - d. none of the above.

Correct answer: a

Feedback: A trustee approved by APRA can be appointed to run a small APRA fund. Learning Objective 12.1 ~ describe the history and growth of SMSFs.

2. SMSFs are regulated by the:

- a. APRA.
- *b. ATO.
- c. ASIC.
- d. none of the above.

Correct answer: b

Feedback: The ATO regulates SMSFs. Learning Objective 12.1 ~ describe the history and growth of SMSFs.

3. SMSFs:

- a. have access to the Superannuation Complaints Tribunal.
- b. are protected by a government and industry compensation scheme if they suffer losses through the fraudulent behaviour of trustees.
- c. both a and b.
- *d. none of the above.

Correct answer: d

Feedback: SMSFs, unlike other APRA regulated funds, do not have access to the Superannuation Complaints Tribunal or protection by a government and industry compensation scheme if they suffer losses through the fraudulent behaviour of trustees. Learning Objective 12.1 ~ describe the history and growth of SMSFs.

4. In comparison to large superannuation funds, available research shows that SMSF members tend to:

- a. have smaller superannuation balances.
- b. be younger.
- c. both a and b.
- *d. none of the above.

Correct answer: d

Feedback: In comparison to large superannuation funds, SMSF members tend to be older and have larger superannuation balances. Learning Objective 12.1 ~ describe the history and growth of SMSFs.

5. A SMSF member/trustee cannot be a(n):
- a. employee of another fund member unless their earnings are less than \$60,000 p.a.
 - b. employee of another fund member unless they sign an exclusion form and submit to the regulator within 60 days of becoming an employee.
 - *c. employee of another fund member unless they are a relative.
 - d. both a and c.

Correct answer: c

Feedback: A SMSF member/trustee cannot be an employee of another fund member unless they are a relative. Learning Objective 12.2 ~ outline the major steps involved in setting up a SMSF.

6. Real returns from an investment portfolio:
- *a. exclude the effects of inflation in the quoted return.
 - b. include the effects of inflation in the quoted return.
 - c. must be equal to the rate of inflation.
 - d. none of the above.

Correct answer: a

Feedback: Real returns from an investment portfolio exclude the effects of inflation in the quoted return and can be either positive, negative or nil. Learning Objective 12.2 ~ outline the major steps involved in setting up a SMSF.

13. The deeming of income when assessing eligibility for the age pension under the income test is:
- a. applied to all assets of the person.
 - *b. applied to financial assets of the person subject to some exclusions.
 - c. only applied to some financial assets above a threshold asset level.
 - d. applied to financial assets of the person subject to some exclusions and uses the higher of the deemed income or actual income returned by these financial assets.

Correct answer: b

Feedback: The deeming of income for the age pension under the income test is applied to financial assets of the person subject to some exclusions such as life insurance policies, rental properties, holiday homes and other real estate together with long-term income products such as pensions and annuities having a term of 5 years or more (however note the expected change to the treatment of superannuation-based income streams from 1 July 2015). The amount of deemed income not actual income is used for assessment under the income test. Learning Objective 13.6 ~ explain the means testing regime for eligibility for the age pension