

## Financial Planning in Australia

### Multiple Choice Questions and Answers

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### CHAPTER 3: Ethics and Compliance

**1**

**What do you think is the main reason for the increased focus on compliance within financial planning businesses?**

- A. The increasing cost of obtaining professional indemnity insurance
- B. The evolution of large financial multi-line businesses
- C. The increased need for consumer protection as products and services become more complex
- D. The increased numbers of financial advisers

**2**

**What is the key concern that is fuelling the debate over commissions being paid to licensees and financial planners by product providers?**

- A. Lack of full disclosure by financial planners and licensees
- B. Conflict of interest between the financial planner and the licensee
- C. Commissions come out of client's money reducing the amount invested
- D. Implied bias when financial planners are selecting products

**3**

**Corporate governance issues are related to compliance issues in that:**

- A. The way a company is managed at the top sets the ethical stance for all actions within the company.
- B. The regulation of companies is the same as that in relation to consumer protection.
- C. All of the regulators (ASIC, ATO, APRA and ATO) function at both corporate and consumer levels so that the regulations are fully intertwined.
- D. At corporate and consumer levels, consumer protection is the key factor that attracts regulatory intervention.

**4**

**Andrew, a financial planner, was asked a question regarding Shirley's ability to access Centrelink benefits. Would there be a difference between asking a colleague within the licensee to assist him with his assessment and asking a friend who works for a different licensee?**

- A. There is no difference; he is trying to get the best information for his client.

- B. Yes, as the client may expect that Andrew would seek advice within his company but not outside of it.
- C. It depends on what information Andrew provides about Shirley when he seeks the advice from the other person.
- D. Yes, because his licensee will not be happy with him discussing a client or gaining knowledge outside the firm.

**5**

**Financial planners have a conflicting ethical relationship with their licensee and their clients. Which of the following statements best describes this conflict?**

- A. They get paid by the licensee depending on how much business they write rather than the quality of advice they provide.
- B. They owe a duty of care to their clients, but at the same time have contractual obligations to their licensee.
- C. They are licensed by their company to provide only the services the company is authorised to provide.
- D. Their licensee will only allow them to write business within the confines of the Approved Product List which means they may not have a product suitable for their client's needs.

**6**

**Why does ASIC place so much emphasis on RG 146?**

- A. RG146 establishes a competitive environment where financial planners have to meet compliance requirements.
- B. Potential and existing clients expect a certain level of competency from their financial advisers which is exhibited in a level of education and skills and ongoing training.
- C. It sets a best practice standard for working within the industry.
- D. It places the burden of compliance onto the licensee for quality of advice.

**7**

**How can you ensure that you have a reasonable basis for your advice?**

- A. Complete a comprehensive data collection form
- B. Construct asset and liability statements and cash flows
- C. Administer a reliable and valid risk tolerance assessment
- D. All of the above

**8**

**Within a full service financial planning business, what impact would APRA have?**

- A. None.
- B. If the parent company is a bank or insurance company, that company will have reporting and compliance obligations to APRA.
- C. As APRA is the regulator that administers superannuation, when setting up a SMSF, APRA requirements will have to be met.
- D. APRA works with ASIC on a number of regulatory issues which can impact on financial planners.

**9**

**What is required for conduct to be considered deceptive or misleading?**

- A. For conduct to be deceptive or misleading, information has to be provided which is untrue.
- B. The conduct must involve an intention to deceive.
- C. Somebody must have actually been misled by the conduct.
- D. Advertising stresses the positives and makes valid comparisons.

**10**

**Sammy wants to get a particular young businessman as a client. This young man is looking to raise money to start an investment portfolio. As he does not have sufficient credit experience, he is asking his parents, a very unsophisticated couple, to provide a guarantee for a margin loan. Sammy helps convince the parents that they will never have to repay the loan, explaining that the portfolio will be certain to grow to more than cover it. How would you describe Sammy's actions?**

- A. Unconscionable
- B. Deceptive and misleading
- C. Both
- D. No issues as it is the son who is getting them to sign

**11**

**Mark recommended a property development scheme without fully understanding how the product worked and the risks involved. His clients lost all of their investment money and ASIC banned him from working for three years. What is the likely real impact of that banning?**

- A. He will have to work doing paraplanners or research until his ban is lifted.
- B. He can continue to recommend property investments as they are not covered by the Corporations Law or regulated by ASIC.
- C. As long as he does not recommend property investments he can continue to work.
- D. Even when the ban expires, he is unlikely to work in the industry again.

**12**

**Which of these possible approaches to ensuring that your clients are not trying to launder money is the most important?**

- A. Take training courses on identifying money laundering.
- B. Never accept cash transactions.
- C. Only accept cheques from banks with which you are familiar.
- D. Ensure that your data collection is thorough and analyse the client data fully before accepting new clients.

13

**Franklin was in a hurry to get a client's order transacted. He quickly checked the stock trading price and placed the order. After the client received the contract note, they checked it against the market report and found that he had paid more for the stock because it went ex-dividend the day after the purchase — he was going to get a dividend which would be taxable. What grounds might the client have for a complaint?**

- A. He has no complaint as there was no instruction to Franklin to purchase the stock ex-dividend.
- B. He could complain that Franklin was not diligent in his actions — Franklin should have known that it was going ex-dividend the next day.
- C. It would depend on whose idea it was to purchase the stock on that day.
- D. It is not Franklin's duty to the clients to consider the taxation implications of a transaction.

14

**Why is common law such an important factor for licensees and financial planners?**

- A. The common law provides superior pre-trial mediation.
- B. The client can get other clients to join them in a class action in common law, but not with statute law.
- C. Common law processes can be faster and more certain than complaining to ASIC and/or the FPA.
- D. All of those reasons.

15

**Cheryl was involved in a very bad car accident. She received a compensation payout of \$450,000. Her condition was expected to deteriorate over time and this money had to last her for over 20 years. Thom, a financial planner, knowing the money had to last, recommended a share portfolio that paid good franked dividends. Was this good advice?**

- A. Yes, because she has a long investment timeframe and the portfolio and income stream is expected to grow over time and meet her rising income needs.
- B. No, it is not appropriate because it does not take into consideration her need for high levels of income now. A balanced approach would provide higher income now and still provide an expectation of inflation protection for the assets and income over time.
- C. There is not enough information to decide.
- D. It will depend on the how the market performs over the next few years.

16

**What impact do disclaimers on disclosure documents have?**

- A. No use whatsoever
- B. Very limited, but can't hurt
- C. Can be used as a warning to clients

D. Protects the legal rights of the licensee

17

**Why might an annual review be more work than an initial plan?**

- A. There is a year of monitoring, review and performance to cover.
- B. The clients may be less enthusiastic about reviews than the initial planning.
- C. If markets have turned down there may be a lot of client education required.
- D. All of the above and more.

18

**Sustra is a doctor in private practice. She earns a good income and has to pay a lot of tax. Her financial planner has put her into a number of tax reduction strategies, and she has heavily borrowed to fund these strategies. Each year to lower her tax bill, she borrows more. What is the key issue with this strategy?**

- A. She needs to have good income protection insurance so that if she could not earn a living she would still be able to meet her payments.
- B. Even with her high income, she may not be able to raise additional debt each year.
- C. At some point, the level of debt she has will make her uncomfortable and she may not be able to unwind without taking significant losses.
- D. Investing purely for 'tax' management is not an appropriate strategy. She should be investing using an appropriate asset allocation and specific asset selection.

19

**Why do breaches of ethical standards, as opposed to breaches of strict legal requirements, pose a business risk to financial planning businesses?**

- A. Trust is at the heart of successful business relationships and is not earned with low ethical standards, even if there are no legal breaches.
- B. ASIC will expect best practice to be exhibited when they audit a company.
- C. Ethics is concerned with client relationships, an area in which the law is not involved.
- D. Best practice will normally become the law eventually, so it's safer to get in first.

20

**What levels of research are you required to undertake before you recommend a product?**

- A. As long as the product is on your licensee's Approved Product List it is not necessary to do any further research.
- B. If a reputable research house rates a product highly, the adviser can take that at face value.
- C. You must do sufficient research on products within your authorisation and which are on your licensee's Approved Product List to be able to match the

product outcomes to client needs.

- D. It is sufficient to provide the PDS for the product to the client as the PDS must have all of the information that the client and their adviser needs to know in order to make an investment decision.

## **Answer grid.**

### **1. C.**

While all of the answers are correct to some extent, the key issues for compliance are based on consumer protection.

### **2. D.**

As all of the investment money is the client's money, both commissions and fees for service will reduce the amount of money available for investment. The concern is that financial planners will support products that pay higher commissions rather than those that meet the client's needs.

### **3. A.**

The way financial planners act in regards to compliance is set by top management. Where managers see their businesses as client centric, they will attract and reward planners who put their clients' interests first.

### **4. C.**

It is often important for one financial planner to discuss issues and strategies with another planner. However, in doing so, it must be on a generic basis — the client's confidentiality must always be maintained.

### **5. B**

While each of these statements identifies issues, the key conflict that a financial planner faces is that they have obligations to both their licensees and to their clients, and the interests of each may not always align. For example, licensees may require high fees to generate business revenue while the client's interest is in low fees so that more of their money is invested.

### **6. B.**

While RG146 does required the licensee to ensure that they hire competent financial planners and that these planners keep up to date, RG146 sets to establish a level of education and training which meets clients' expectations for professionalism.

### **7. D**

Students should be asked to list/discuss other additional methods.  
Having a reasonable basis for advice is the most critical part of financial planning.

### **8. B.**

While APRA generally has little direct responsibility for financial planners, if the licensee is part of a multi-faceted financial business, prudential reporting at the group level will include the financial planning business.

### **9. C.**

The misleading or deceptive definition is very broad; it makes no difference whether the intent was to mislead or deceive, or even if anyone was actually misled or deceived. It is how the conduct affects thoughts and beliefs that matters. If the overall impression left by an advertisement, promotion, quotation, statement or other representation could create a misleading impression in the mind — such

as to the price, value or the quality of any goods and services — then the conduct is likely to breach the law.

**10. C.**

Sammy has to take full responsibility for the parents agreeing to sign. He should know that while, over time, the portfolio may grow to more than cover the loan, there are potentially margin calls which the parents would be required to meet if his young client was not able to.

**11. D.**

As he has been guilty of providing inappropriate advice, not doing his research and perhaps acting outside of his authorisation, most licensees would view him as a compliance risk and it is very unlikely that he would be offered work in any capacity.

**12. D.**

While decisions on the matters detailed in A–C need to be considered, the key to meeting your obligations is thorough data collection, analysis and continuous monitoring of client accounts. Know your client and you will meet your money laundering obligations.

**13. B.**

Even if it was the client's decision to purchase the stock, Franklin owed him a duty of care to check important aspects of the stock before the transaction was made. If he had been diligent, he could have advised the client to wait until the stock went ex-dividend before he purchased it.

**14. C.**

As common law is based on duty of care, and it is clear that a licensee and a financial planner generally owe the client a duty of care, common law can be faster, more certain. Proving duty of care and breach of that duty is often easier than seeking redress through the Corporations Law and ASIC.

**15. B.**

Investment recommendations must be based on the income needs of the client now and in the future. The advice is inappropriate, no matter how the market performs, and the portfolio is too risky for this client. More information would be required to support a full recommendation but there is no question that 100% in equities is too aggressive for someone in this position.

**16. C.**

Disclaimers do not provide a lot of legal protection, as you cannot disclaim away a consumer's legal rights. However, when constructively used, disclaimers can alert the client to areas of volatility, uncertainty and assumptions which may change. In this way, they can be effective in warning the client to pay attention to the detail of their financial plan.

**7. D.**

Students should be encouraged to list/discuss other reasons why annual reviews may be harder work than the initial plan and think of ways to get clients committed to an annual review process.



**18. D.**

While each of the answers has merit, the fundamental issue is that the investments are being made not so much because they are appropriate, but purely to save tax. Tax-effective investments usually carry higher risk than others. If they stacked up on their merits against competing investments, the government would not need to forego any tax to encourage people into them.

**19. A.**

Students need to understand the relationship between compliance and business management. A 'just get by' business strategy means that significant business risk is being taken, often without the company even realising it.

**20. C.**

Product research is one area where many financial planners are not well trained. However, they are required to be personally diligent in researching products before they recommend them to clients and not rely solely on research houses, the PDS or the fact that a product is on the Approved Product List.

## Financial Planning in Australia

### Multiple Choice Questions

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### CHAPTER 8 Investing in Property and Collectibles

1.

**Which of the following is NOT a disadvantage of home ownership?**

- A. Interest rate risk
- B. Costs of maintenance and council rates
- C. Illiquidity
- D. Capital gains tax

2.

**What property types are subject to land tax and (if sold) stamp duty?**

- A. Both main residences and investment property are subject to both types of tax.
- B. Neither the main residence nor holiday homes that are not income producing are subject to either types of tax.
- C. An investment property is liable for stamp duty but a main residence is not.
- D. An investment property is liable for land tax but a main residence is not.

3.

**Which statement below best describes issues of supply and demand in the market for residential property?**

- A. A decrease in rental vacancy rates usually results in a decrease in rental prices.
- B. An increase in interest rates usually results in a decrease in rental prices.
- C. An increase in interest rates usually results in a decrease in the sale of new homes.
- D. An oversupply of homes usually results in an increase in rental prices.

4.

**For Australian residents, capital gains tax applies to:**

- A. the sale of investment property

- B. the home office
- C. most capital assets purchased after 20 September 1985
- D. all of the above

**5.**

**The stamp duty payable on a \$460,000 home in 2010 is lowest in:**

- A. Australian Capital Territory (ACT)
- B. New South Wales
- C. Northern Territory
- D. Queensland

**6.**

**How do listed and unlisted property trusts usually compare?**

- A. Listed trusts are less volatile and unlisted trusts have higher entry fees.
- B. Listed trusts are more volatile, and unlisted trusts have higher entry fees.
- C. Listed trusts are more volatile and unlisted trusts have lower entry fees.
- D. Listed trusts are less volatile and unlisted trusts have lower entry fees.

**7.**

**What is meant by the term 'allocated' in respect of the ownership of gold?**

- A. Allocated gold involves investors owning physical gold.
- B. Allocated gold refers to the amounts of gold required to satisfy outstanding futures contracts.
- C. Allocated gold is the set aside by the Reserve Bank for public auction.
- D. Allocated gold is the metal amount required to be held when writing covered put options.

**8.**

**What is the nature of a gold ETF?**

- A. It is an option, giving the holder the right but not the obligation to buy or sell gold.
- B. It is a futures contract, giving the holder the obligation to buy or sell gold at a future date.
- C. It is a synthetic, giving the holder the right to payments that are related to movements in the gold price.

- D. It is a tradeable instrument that is backed by physical gold that is held by the fund manager.

**9.**

**What advantage does artwork have over most other investment collectables?**

- A. An income stream may be generated by renting to galleries or businesses.
- B. Less expertise is required in the selection of individual items.
- C. Storage and insurance costs are lower.
- D. Exemptions from the sole purpose test apply making them particularly suitable for self-managed superannuation funds.

**10.**

**Which items are included in the category of collectables?**

- A. Only items listed as approved collectable investments by ASIC.
- B. Any items that are used or kept for personal enjoyment for reasons such as aesthetic appeal, historical significance or scarcity.
- C. Durable goods such as furniture or coins, but not consumables like posters or movie memorabilia.
- D. Only items that would be acceptable to be catalogued by established auction houses such as Sotheby's.

## Answer Grid

1. D
2. D
3. C
4. D
5. D
6. B
7. A
8. D
9. A
10. B

## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 5: Investing in Shares

1.

**Which of the following is not a characteristic of preference shares?**

- A. Preference shares are riskier than ordinary shares.
- B. Preference shares specify a fixed dividend payment.
- C. Preference shareholders have preference over ordinary shareholders with respect to the distribution of earnings.
- D. Preference shareholders have no voting rights.

2.

**The level of return expected on an equity investment is known as:**

- A. The interest rate
- B. The required return
- C. The real rate of interest
- D. The risk-free rate

3.

**If a firm pays a \$2 dividend that is expected to remain constant, what is the value of the firm's ordinary shares if the firm's required rate of return is 16%?**

- A. \$2.00
- B. \$12.50
- C. \$32.00
- D. none of the above

4.

**A share that is currently valued at \$2 has just paid a dividend per share of \$0.10. Assuming a constant growth rate of 5% per annum the required rate of return on the share is:**

- A. 5.25%
- B. 10%
- C. 10.25%
- D. 12%

**5.**

**An increase in the dividend growth rate  $G$  will result in:**

- A. a decrease in the annual dividend per share
- B. an increase in the risk-free rate
- C. an increase in the share's price
- D. an increase in the required rate of return

**6**

**Preference shares are usually valued using:**

- A. the zero growth model
- B. the constant growth model
- C. the variable growth model
- D. the free cash flow valuation model

**7.**

**Jim purchases 450 shares of Rose Tinted Glasses (RTG) at a price of \$16 each. During the first year of ownership he receives \$0.80 per share in cash dividends. At the end of the year Jim sells his RTG shares for \$20 each. This gives the following returns:**

- A. \$360 return from dividends and \$9,000 total return
- B. \$360 return from dividends and \$2,160 total return
- C. \$1,800 return from capital gains and \$9,000 total return
- D. \$360 return from capital gains and \$2,160 total return

**8.**

**John purchases 650 shares of Rose Tinted Glasses (RTG) at a price of \$12 each. During the first year of ownership he receives \$0.40 per share in cash dividends. At the end of the year John sells his RTG shares for \$25 each. This gives the following returns:**

- A. \$260 return from dividends and \$8,710 total return
- B. \$260 return from dividends and \$16,250 total return
- C. \$8,450 return from capital gains and \$16,250 total return
- D. \$8,450 return from capital gains and \$16,510 total return

**9.**

**Jane purchases 780 shares of Rose Tinted Glasses (RTG) at a price of \$42 each. During the first year of ownership she receives \$0.80 per share in cash dividends. At the end of the year Jane sells her RTG shares for \$57 each. The Holding Period Return (HPR) for Jane's holding is:**

- A. 26.32%
- B. 27.72%
- C. 35.71%
- D. 37.62%

**10.**

Mike purchases 850 shares of Rose Tinted Glasses (RTG) at a price of \$24 each. During the first year of ownership he receives \$1.20 per share in cash dividends. At the end of the year Mike sells his RTG shares for \$23 each. The Holding Period Return (HPR) for Mike's holding is:

- A. -4.35%
- B. -4.17%
- C. 0.83%
- D. 0.87%

**11.**

John purchases a foreign share for \$US150 when the exchange rate is \$A/\$US 0.8000. The price of the share rises (in \$US terms) over the next 3 months to \$US170. The exchange rate in 3 months' time is \$A/\$US 0.8500. The profit or loss that John would make if he sold at that time is:

- A. profit of \$A 25.00
- B. profit of \$A 12.50
- C. loss of \$A 23.53
- D. loss of \$A 28.19

**12.**

John purchases a foreign share for \$US210 when the exchange rate is \$A/\$US 0.8500. The price of the share rises (in \$US terms) over the next 2 months to \$US230. The exchange rate in 2 months' time is \$A/\$US 0.9450. The profit or loss that John would make if he sold at that time is:

- A. profit of \$A 23.53
- B. profit of \$A 21.16
- C. loss of \$A 3.67
- D. loss of \$A 21.16

**13.**

Charmaine purchases a security today for \$4,000 and holds it for 5 years and then sells it for \$12,000. Given that the security pays no current income during this 5-year period the yield on this security is:

- A. 200%
- B. 40%
- C. 24.57%
- D. 14.87%

**14.**

The market returns for Australian Shares over the two years 2001 and 2002 were 10.49% and 8.64%, respectively. The simple average and annualised average of these returns are, respectively:



- A. 0.93% and 0.47%
- B. 0.93% and 0.94%
- C. 1.85% and 0.47%
- D. 1.85% and 0.94%

**15.**

**The Happy Go Lucky Company (HGL) reports net profit after tax of \$125 million, pays \$3 million in preference dividends and has 30 million ordinary shares outstanding. The current market price of the ordinary shares of HGL is \$52.10. This gives which of the following?**

- A. EPS of \$4.17 and P/E ratio of 12.50
- B. EPS of \$4.07 and P/E ratio of 12.50
- C. EPS of \$4.17 and P/E ratio of 12.81
- D. EPS of \$4.07 and P/E ratio of 12.81

**16.**

**Elaine and James are looking to put a value on a share that they are both interested in. They both require a rate of return on their investment of 13%. Elaine uses the constant dividend model and believes that the share will continue to pay its current annual dividend of \$3. James uses the constant growth of dividends model and believes that the dividends will grow at the rate of 4% per year. The values that Elaine and James estimate are, respectively:**

- A. \$23.08 and \$34.67
- B. \$23.08 and \$33.33
- C. \$23.08 and \$24.00
- D. \$23.08 and \$23.08

**17.**

**Sue and Bob are looking to put a value on a share that they are both interested in. They both require a rate of return on their investment of 14%. Sue uses the constant dividend model and believes that the share will continue to pay its current annual dividend of \$5. Bob uses the constant growth of dividends model and believes that the dividends will grow at the rate of 2% per year. The values that Sue and Bob estimate are,**

- A. \$41.67 and \$35.71
- B. \$35.71 and \$35.71
- C. \$35.71 and \$42.50
- D. \$41.67 and \$42.50

**18.**

**Who has responsibility for ensuring compliance with the Corporations Act?**

- A. APRA
- B. ASIC

- C. ASX
- D. RBA

**19.** What action is taken by margin lenders if margin calls are not met within the required time?

- A. Margined securities are sold down until the loan is brought into order.
- B. Penalty interest rates are applied to the loan.
- C. Debt recovery action is taken through the courts.
- D. The account is frozen until the required margin is re-established.

**20.** What of the indices listed in *Financial Planning in Australia* represents the performance of the largest number of stocks on the ASX?

- A. The Standard and Poor's Composite 500
- B. The FTSE 100
- C. The S&P/ASX 300 index
- D. The All Ordinaries Index

## Answer Grid

1. A
2. B
3. B
4. C
5. C
6. A
7. B. Dividends =  $450 \times \$0.80 = \$360$ ; Capital Gains =  $450 \times (\$20 - \$16) = \$1800$   
Total return =  $\$360 + \$1800 = \$2160$
8. A. Dividends =  $\$260$ ; Capital Gains =  $650 \times (\$25 - \$12) = \$8450$   
Total Return =  $\$260 + \$8,450 = \$8,710$
9. D. 
$$HPR = \frac{0.80 + (57 - 42)}{42} = \frac{15.80}{42} = 37.62\%$$
10. C. 
$$HPR = \frac{1.20 + (23 - 24)}{24} = \frac{0.20}{24} = 0.83\%$$
11. B. ——— ———
12. C. Price in \$A = ——— Sale Price in \$A = ———
13. C. 
$$(1+r)^5 = \frac{12000}{4000} = 3 \quad 1+r = 3^{\frac{1}{5}} = 1.24573094 \quad r = 24.57\%$$
14. A. Simple average: 
$$\frac{10.49\% + (-8.64\%)}{2} = 0.93\%$$
  
Annualised average: 
$$\sqrt{(1.1049)(0.9136)} - 1 = 0.47\%$$
15. D. EPS =  $(\$25m - \$3m) / 30m = \$4.07$   
P/E ratio =  $\$52.10 / \$4.07 = \$12.81$
16. A Elaine =  $3 / .13 = \$23.08$   
James =  $3 \times (1+.04) / (.13 - .04) = \$34.67$
17. C. 
$$\frac{\$5}{0.14} = \$35.71 \quad \frac{\$5(1.02)}{0.14 - 0.02} = \frac{\$5.10}{0.12} = \$42.50$$
18. B.
19. A
20. D

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#### Chapter 2: The Client-Advisor Relationship

**1**

**Which of the following is NOT one of the six steps in the financial planning process?**

- A. Collect client data
- B. Identify financial problems
- C. Make recommendations and implement the plan
- D. Prepare a Financial Services Guide (FSG)

**2**

**What effect has the information explosion had on the provision of advice?**

- A. Advisers can now assume that clients are fully aware of the technical aspects of investments.
- B. Clients no longer need educating about the nature of the investment options that are open to them.
- C. Clients need the help of an adviser to determine the relevance and usefulness of the information available.
- D. Clients are well equipped to make their own financial decisions.

**3**

**Which of these is an example of a good use of body language?**

- A. Sitting with arms uncrossed in client interviews
- B. Using clear language in explanations of technical matters
- C. Providing relevant diagrams in documents
- D. Listing key points on a white board during interviews

**4**

**A data gathering instrument is important because**

- A. It is the prime means of providing information to the client.
- B. It is the prime means of obtaining information from a client.
- C. It meets the legal requirement to document recommendations.
- D. It provides all the warnings and disclaimers to a client that are required by law.

**5**

**Which of the following data would be classified as qualitative?**

- A. Learning style and financial goals
- B. Social needs and psychological needs
- C. Financial goals and budgets
- D. Statement of assets and liabilities

**6**

**Information recorded on a data gathering instrument should include:**

- A. Financial and non-financial information relating to the client's current circumstances
- B. Future assumptions concerning inflation and investment earning rates
- C. Analysis of insurance adequacy
- D. Projections of net worth at the expected retirement age

**7**

**Which of these is a legal requirement for Statements of Advice?**

- A. They must be restricted to investment options and strategies.
- B. They must be in writing.
- C. The adviser is not accountable for the advice unless the document is signed by the client.
- D. They are valid for 7 days.

**8**

**Which of the following is a traditional risk category of investor established by the risk profiling process?**

- A. Growth investor
- B. Quant investor
- C. Speculative investor
- D. Passive investor

**9**

**What part of a financial planner's recommendations is most affected by the result of the risk profiling process?**

- A. Asset allocation
- B. Sums insured
- C. Tax planning strategies
- D. Choice of investment vehicle

**10**

**Which of the following would normally be least likely to require a change in a client's financial plan?**

- A. A change in the client's income

- B. The birth of a child
- C. A downturn in the stock market
- D. A long posting overseas

**11**

**RG 146 requires AFS licensees to:**

- A. Ensure authorised representatives hold a relevant bachelor's degree
- B. Ensure responsible officers have adequate risk management systems in place
- C. Adequately train their representatives in relation to the financial services they offer and which are covered by their licence
- D. Have adequate compliance measures and systems in place

**12**

**Joan Copeman is a well respected academic who lives a busy professional and social life and sees no reason to be concerned about understanding her financial affairs. Joan maintains that understanding 'numbers' is beyond her and readily acknowledges she has no interest or desire in learning how it works. In this situation:**

- A. It is important that Joan understands the ramifications and purpose of the financial advice she is given.
- B. Her adviser can rightly assume that as she is well-educated and will not require detailed explanations.
- C. Joan should just have complete confidence in the recommendations of her adviser as he holds the CFP designation.
- D. Discussing all recommendations made in regard to her SOA is not necessary.

**13**

**In personal financial planning the process of data collection:**

- A. Does not include psychological information
- B. Is a critical first step in the financial planning process
- C. Should remain businesslike and not intrude into personal goals and ambitions
- D. Relates to qualitative data only

**14**

**The core of the fiduciary relationship inherent in financial planning:**

- A. Requires a formalised legal agreement between client and financial planner
- B. Requires that advisers always provide the best advice to clients
- C. Requires the adviser to always put the client's best interest first
- D. Is outlined in the Scope of Advice with the Statement of Advice (SOA)

**15**

**Which three of the following asset classes are the most aggressive?**

- I. Government bonds
- II. Cash and fixed interest
- III. Commercial property
- IV. International shares
- V. Derivatives

- A. I, II and V
- B. II, III, and IV
- C. I, III, and IV
- D. III, IV, and V

### Answer Grid

1. D
2. C
3. A
4. B
5. B
6. A
7. B
8. A
9. A
10. C
11. C
12. A
13. B
14. C
15. D



## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 18: Estate Planning

1

**You are a financial adviser who is assisting your client with her estate planning requirements. You identify a number of tasks which need to be completed – which of these would you feel needs the specialist help of an accountant rather than a financial adviser?**

- A. Arranging the purchase of an insurance policy to support the estate planning process
- B. Regularly reviewing her superannuation nomination form to ensure consistency with her estate plan
- C. Identifying and documenting her business structures including any liabilities
- D. Documenting her investments and superannuation benefits

2

**Which of the following could someone granted power under an Enduring Power of Attorney carry out for the grantor?**

- A. Sell a parcel of shares held in the grantor's name
- B. Take over the grantor's role as executor of another person's estate
- C. Act on behalf of the grantor as a director of a company
- D. Make a Will on behalf of the grantor

3

**Which of the following would be classified as estate assets?**

- A. Jointly held investment property
- B. Superannuation benefits with a valid binding nomination to the spouse
- C. Self-owned life insurance policy
- D. Assets held in a family trust with the deceased as trustee and beneficiary

4

**Which of these people would not be considered a 'dependant' for tax purposes when receiving a superannuation death benefit?**

- A. A grandchild who lived with a deceased grandparent at the time of their death
- B. A same-sex partner of the deceased
- C. The mother of the deceased who lives in a granny flat at the deceased's main residence
- D. The son of the deceased who is 19 and has his own apartment

5

**When the trustee of a testamentary trust pays income to a beneficiary who is a child under the age of 18, which of the following is correct?**

- A. The income is received tax free.
- B. Adult marginal rates will apply to the income.
- C. The income is taxed at child tax rates.
- D. The tax-free threshold for the income received is \$416.

6.

**Complete the following sentence with the most appropriate wording. A 'testamentary discretionary trust' is:**

- A. funded by life insurance
- B. prepared by the trustee after the death of a Will-maker
- C. contained in the Will and comes into operation when the executor pays or transfers assets to the trustee
- D. must be created within three years of the death of the Will-maker

7

**If a person loses their capacity to make financial decisions for themselves, which of the following can make decisions for them:**

- A. the Public Trustee
- B. the person's executor
- C. the person's attorney
- D. the person's enduring guardian

8.

**A child under the age of 18 years is taxed as an adult provided that the income is NOT:**

- A. a capital gain paid by the trustee of a testamentary discretionary trust
- B. paid from a trust established under s 102AG(2)(d)(ii) of the Income Tax Assessment Act 1936

- C. a distribution from a trust established under the Will of a deceased non-relative
- D. interest from a term deposit funded and controlled by the child's parents.

9.

**Which of the following might be needed to implement an estate plan?**

- A. Preparation of a Will
- B. Identifying strategies for the survivor of a means-tested pensioner couple (or the child of a non-pensioner parent or parents) to retain pension eligibility after the first of the couple, the parent or the survivor of the parents dies
- C. The taking out of a life insurance policy
- D. All of the above

10.

**Superannuation death benefits can be paid:**

- A. as a lump sum to the executor or administrator of the estate of the deceased fund member
- B. as a lump sum to a 'superannuation' dependant of the deceased fund member
- C. as a pension to a 'tax' or 'pension' dependant of the deceased fund member
- D. all of the above

11.

**An example of non-estate assets is:**

- E. assets which are not real estate
- F. superannuation
- G. lotto winnings
- H. life insurance owned by the deceased

12.

**A 'testamentary discretionary trust' is usually controlled by:**

- A. the executor named in the Will
- B. a trustee appointed by the executor
- C. a trustee appointed by the Will-maker
- D. none of the above

13.

**A protective trust:**

- A. is a special form of trust for persons who are in gaol
- B. can be tailored to provide additional protection for an executor
- C. is used to provide for intellectually handicapped people only
- D. is a trust where the beneficiary has little or no control

14.

**Which of the following assets will the executor of an estate administer and divide in accordance with the terms of the Will?**

- A. A family home owned by the deceased and the deceased's widow as joint tenants
- B. An investment factory owned by the deceased and the deceased's widow as tenants in common
- C. The default entitlements in a family discretionary trust
- D. One half of the unallocated or miscellaneous reserves of a two-member self-managed superannuation fund

15.

**In the absence of a current binding nomination made pursuant to s 59 of the SIS Act or an express provision in the governing trust deed, who determines to whom a death benefit is to be paid from a self-managed superannuation fund with surviving members?**

- A. The trustee of the fund or the surviving trustee or trustees of the fund
- B. The deceased fund member by virtue of the terms of the deceased's Will (if a valid will has been made)
- C. The deceased fund member's legal personal representative
- D. The trustee of the fund or the surviving trustee or trustees of the fund, in conjunction with the deceased fund member's legal personal representative (if the legal personal representative is appointed by the time the decision is to be made)

Answer Grid.

1. **C**
2. **A**
3. **C**
4. **D**
5. **B**
6. **C**. See page 694.

Comments re other answers:

- A. Whilst life insurance can be used to fund a testamentary trust, other assets forming part of a person's estate can also be used. The preferable answer is (C).
  - B. This is incorrect. The trust is contained in the Will.
  - C. Correct answer.
  - D. This is incorrect. The trust is created by the Will of the Will-maker.
7. **C**. See page 681. Comments re other answers:
- A. The Public Trustee is the default administrator of a person's estate unless or until an executor or administrator is appointed. They can be appointed by a person as their attorney, but they are not appointed by default.
  - B. The person's executor does not act during a person's lifetime, only after their death.
  - C. Correct answer.
  - D. The person's enduring guardian can make lifestyle decisions but not financial decisions.
8. **D**. See page 688. Comments re other answers:
- A. A capital gain paid by the trustee of a testamentary discretionary trust to a child is taxed as an adult. The correct answer is (D).
  - B. Income paid from a trust established under s 102AG(2)(d)(ii) paid to child is taxed as an adult. The correct answer is (D).
  - C. A distribution from a trust established under the Will of a deceased non-relative is taxed no differently to that of a relative. If it is paid to a child it is taxed as an adult. The correct answer is (D).
  - D. Correct answer. The tax concession must arise by virtue of s 102AG.
9. **D**. See Chapter 18 generally. Comments re other answers:
- A. A Will is an integral part of estate planning. The correct answer is (D).
  - B. This strategy may be relevant to some clients' estate planning. The correct answer is (D).
  - C. This may be necessary in some instances to provide funding to repay debt or fund a testamentary trust. The correct answer is (D).
  - D. Correct answer.
10. **D**. See page 703. Comments re other answers:

- A. A lump sum can be paid to the executor or administrator of the estate of the deceased fund member. This is often done when there is no 'superannuation' dependant. The correct answer is (D).
- B. This strategy may be relevant to some clients' estate planning. The correct answer is (D).
- C. This may be necessary in some instances to provide funding to repay debt or fund a testamentary trust. The correct answer is (D).
- D. Correct answer.

**11. B**

**12. C.**

**13. D**

**14. B**

**15. B**

## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 16: Superannuation and Retirement Planning

**1**

**Drew, aged 55, starts an account based pension with \$150,000 from his superannuation fund. He draws \$25,000 per annum of which 40% is tax free. Calculate his pension offset.**

- A. \$10,000
- B. \$1,500
- C. \$2,250
- D. \$15,000

**2**

**Which of the following is counted towards the non-concessional contribution cap?**

- A. Amount of overseas rollover that is not taxable
- B. Co-contribution by government
- C. Personal injury payments
- D. Amounts up to the CGT exempt cap from the sale of a small business

**3**

**Bob, aged 53, has resigned from his employer and he finishes in four weeks' time. \$50,000 of his superannuation benefit is classified as restricted non-preserved. When will Bob be able to withdraw this restricted non-preserved benefit?**

- A. When he reaches 55 and permanently retires from the workforce
- B. When he leaves his employer in four weeks' time
- C. When he reaches 65
- D. Immediately

**4**

**How can a transition to retirement strategy assist with a client's retirement planning?**

- A. It can enable clients of all ages to receive a tax-free income stream from superannuation.

- B. By replacing salary with pension income, it achieves tax savings and can boost overall retirement savings.
- C. Its primary focus is to enable the client to access the government co-contribution which will increase their superannuation balance.
- D. It reduces living expenses which increases the level of funds available for investment.

**5**

**Which of the following types of income streams CANNOT qualify for an Asset Test exemption if purchased prior to 20 September 2007?**

- A. Life expectancy pension
- B. Market linked income stream
- C. Allocated pension
- D. Lifetime pension

**6**

**What is the tax rate applicable to earnings on investments in the accumulation phase of superannuation?**

- A. The corporate tax rate of 30% paid by the member
- B. A maximum of 15% of income plus grossed up franking credits paid by the member
- C. A maximum of 15% paid by the fund
- D. The corporate rate of 30% paid by the fund

**7**

**Which statement concerning borrowing by super funds is correct?**

- A. Superannuation funds can borrow for a wide range of purposes provided the borrowing is undertaken on a short-term basis.
- B. Superannuation funds can borrow for a limited range of prescribed purposes including to fund the acquisition of an asset.
- C. Superannuation funds can borrow without restriction provided the borrowing is to fund the acquisition of an asset.
- D. Superannuation funds can borrow for a wide range of purposes provided the borrowing is undertaken on a long-term basis.

**8**

**With regard to the eligibility conditions for the government's co-contribution to superannuation, which of the following is INCORRECT (for 2010/11)?**

- A. The person must be no older than 71.
- B. The person must have lodged an income tax return.
- C. The person must have income of less than \$61,920.



- D. The person must receive income of at least \$1500 from carrying on a business.

**9**

**In 2010/11, for a member under age 50, concessional contributions are taxed concessionally up to an annual cap of?**

- A. \$25,000
- B. \$50,000
- C. \$150,000
- D. \$450,000

**10**

**Michael receives a genuine redundancy payment of \$95,000 on 18 October 2010. He has service with his employer of 18 years and 10 months. Using the 2010/11 threshold, calculate the tax-free amount of the payment.**

- A. \$73,152
- B. \$77,338
- C. \$81,278
- D. \$85,342

## Answer Grid.

1. C
2. A
3. B
4. B
5. C
6. C
7. B
8. D
9. A
10. C

# Financial Planning in Australia

## Multiple Choice Questions and Answers

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### CHAPTER 1: The Financial Planning Environment

**1**

**The four phases of the business cycle are:**

- A. Expansion, peak, downswing and recession
- B. Peak, contraction, recession and failure
- C. Contraction, expansion, recession and depression
- D. Trough, downswing, peak and boom

**2**

**Which of the following is NOT a key economic variable?**

- A. Unemployment
- B. Inflation
- C. Interest rates
- D. Superannuation

**3**

**What effect on share prices can be expected from high inflation and high interest rates?**

- A. High inflation is positive for share prices but high interest rates are not
- B. Both tend to cause share prices to decline
- C. Both tend to cause share prices to rise
- D. High interest rates are positive for share prices but high inflation is not

**4**

**What change in the ratio of people of working age to people aged over 60 does Mr GR Stevens expect to occur between 2005 and the middle of the century?**

- A. From 28% to 40%
- B. From 40% to 28%
- C. From 2:1 to 5:1
- D. From 5:1 to 2:1

**5**

**Who does the Financial Planning Association represent?**

- A. Only individual financial planning practitioners
- B. Only corporate financial planning licensees

- C. Both individual financial planning practitioners and corporate financial planning licensees
- D. All stakeholders in the industry, including financial planners, fund managers, accountants and actuaries

**6**

**Which regulator in the financial services industry is responsible for the licensing of financial advisers?**

- A. Australian Competition and Consumer Commission
- B. The Australian Taxation Office
- C. Australian Securities and Investments Commission
- D. The Reserve Bank

**7**

**A Financial Services Guide must include:**

- A. A client data questionnaire
- B. Disclosure of fees and commissions
- C. A risk profile instrument
- D. A disclaimer

**8**

**What did the Rippoll Committee find concerning professional indemnity insurance?**

- A. It does not either effectively indemnify advisers or compensate investors.
- B. It is effective both at indemnifying advisers and compensating investors.
- C. It compensates investors but is unsuitable for indemnifying advisers.
- D. It indemnifies advisers but is unsuitable for compensating investors.

**9**

**The government's major goal in introducing the Financial Services Reform Act was:**

- A. To protect government revenue
- B. Provide a single licensing regime
- C. To implement the Ralph Committee recommendations
- D. To bring tax agents and financial planners under the same licensing arrangements

**10**

**From a client's perspective the most important benefit of financial services reform was:**

- A. Improved disclosure requirements
- B. Improved competition between the banks
- C. Increased power for the Reserve Bank
- D. Increased power for the Australian Taxation Office

### Answer Grid.

1. A
2. D
3. B
4. D
5. C
6. C
7. B
8. D
9. B
10. A

## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 9: Managing Risks and Constructing Portfolios

1

**Which of the following would best be described as behavioural risk?**

- A. The risk that a stock market will crash
- B. The risk that a horse will lose a race
- C. The risk that a borrower will default on the loan
- D. The risk that an investor will pay too much for a stock during a speculative boom

2

**Which of the following risk management methods is a family breadwinner using when buying a life insurance policy?**

- A. Elimination
- B. Control
- C. Transfer
- D. Retention

3

**The primary function of diversification is to**

- A. Manage systematic risk
- B. Increase the expected return
- C. Reduce the risk of holding an investment that will fail
- D. Manage investment risk

4

**The covariance between two assets P and Q is:**

- A. The standard deviation of P to the standard deviation of Q
- B. The individual weightings of P and Q to the variance of PQ
- C. The square root of the variance of PQ to the covariance of PQ
- D. The product of the correlation coefficient between P and Q and the individual risks of P and Q

5

**An asset's Beta coefficient**

- A. is the level of correlation between risky asset returns
- B. is the measure of market risk attributed to any given asset
- C. is the risk-free asset's return for any given period
- D. shows how the expected return of efficient portfolios change over time

6

**Diversifiable risk:**

- A. exists no matter what the level of diversification
- B. is often referred to as unsystematic risk
- C. is often referred to as systematic risk
- D. represents the risk associated with things such as war, drought, inflation and political

7 Which of the following represents use of the 'control' option in risk management?

- A. Deciding against engaging in activities where the risks outweigh the rewards
- B. Having regular health checks
- C. Regularly reviewing life insurance cover for adequacy
- D. All of the above

**NOTE: Questions 8 and 9 are based on the information below.**

There are two assets G and L.

Asset	Actual Return	Probability is
L	12%	30%
	15%	30%
	20%	40%
G	12%	40%
	16%	30%
	25%	30%

8

**Calculate the expected return of G.**

- A. 3.3
- B. 13.3
- C. 16.1
- D. 17.0

**9** Using the data above calculate the expected return of asset L.

- A. 15.4
- B. 16.1
- C. 17.2
- D. 21.0

**Questions 10 and 11 are based on the information below.**

There are two assets M and N.

Asset	Expected Return	Actual Return	Probability
M	16%	10%	60%
N	15%	12%	50%

**10**

**Calculate the risk of asset M.**

- A. 4.65%%
- B. 2.45%
- C. 0.024%
- D. none of the above

**11**

**Calculate the risk of asset N.**

- A. 4.5%
- B. 0.45%
- C. 0.212%
- D. 2.12%

**Questions 12 and 13 are based on the information below.**

There are two assets K and J.

The expected return of asset K is 8% and the expected return of asset J is 10%.

The risk associated with asset K is 4% and the risk of asset J is 10%. The correlation coefficient of the two assets K and J is -1.00. Asset K represents 40% of the portfolio and asset J represents 60% of the portfolio.

**12**



**What is the expected return of the portfolio KJ?**

- A. 4.50%
- B. 8.80%
- C. 9.20%
- D. 9.65%

**13**

**What is the risk of portfolio KJ?**

- A. 0.196%
- B. 3.38%
- C. 3.80%
- D. 4.40%

**Answer Grid.**

1. D
2. C
3. D
4. D
5. B
6. B
7. B
8. C
9. B
10. A
11. D
12. C
13. D

## Financial Planning in Australia

### Multiple Choice Questions

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#### Chapter 14: Insurance – Life, Income and Other

**1**

**Which of the following is correct about a term life policy being paid out prior to death?**

- A. The insured has suffered a heart attack or stroke.
- B. The insured is suffering from a terminal illness with a life expectancy of less than 2 years.
- C. The insured has been given less than 12 months to live by two medical practitioners, one of whom is a specialist.
- D. There is usually no limit on the amount that can be paid out in the event of terminal illness.

**2**

**Which of the following is correct regarding stepped premiums?**

- A. The premium remains constant throughout the period of the policy.
- B. The premium charged represents the risk presented for the particular year and will generally rise each year upon renewal.
- C. Surplus premium in early years is invested and used in later years to supplement the premium paid then.
- D. During the early years, level premiums will be considerably cheaper than stepped.

**3**

**Which of the following would be excluded under a term life policy?**

- A. Death by accidental drowning
- B. Death by suicide within 13 months of the issuance of the policy
- C. Death as a result of heart attack
- D. Death whilst travelling overseas

**4**

**Which of the following is NOT an example of current resources that might be available to dependants upon the death of a family member?**

- A. Income of surviving family members
- B. Government benefits

- C. Deceased's interest in a business
- D. Living expenses.

**5**

**What method is used to establish the multiple under the multiple method?**

- A. Find the net present value of the required income stream and divide it by the income required in year one
- B. Divide the estimated earning rate by 100
- C. Divide 100 by the estimated earning rate
- D. Divide the deceased's salary by the sum of estimated expenses post death

**6**

**Which of the following are considerations when using the needs approach to calculate the amount of life cover required?**

- A. The amount needed for dependants to maintain their standard of living
- B. The current resources the dependants have to meet their needs
- C. The gap between needs and resources represents the amount of life cover required
- D. All of the above

**7**

**Which of the following is an advantage of holding life insurance inside a superannuation fund?**

- A. The premiums are paid from tax-deductible contributions
- B. Less tax is payable on the proceeds
- C. Trauma cover in superannuation generally includes a wider range of specified events
- D. All of the above

**Answer Grid.**

- 1. C**
- 2. B**
- 3. B**
- 4. D**
- 5. C**
- 6. D**
- 7. A**

## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 7: Investing in Managed Funds

**1**

**Which of the following statements about managed funds is correct?**

- A. Managed funds are never unitized.
- B. Closed-ended managed funds are never listed on the ASX.
- C. Managed funds are issued under a Product Disclosure Statement.
- D. Wholesale managed funds are not available to retail investors via a wrap service.

**2**

**Which of the following is an advantage of investing in managed funds?**

- A. Generally lower cost than alternatives
- B. Usually outperform the market as a whole
- C. Provide an opportunity for extensive diversification with low amounts invested
- D. Greater control over timing of the realisation of capital gains.

**3**

**Who owns the fund itself in a managed fund?**

- A. The investors
- B. The trustee
- C. The custodian
- D. The corporate manager

**4**

**Which of the following investor types requires a maximum increase in capital, is highly conscious of inflation and tax, has a long time horizon and is not risk averse?**

- A. A conservative investor
- B. A balanced investor
- C. A growth investor

- D. A high growth investor

**5**

**Which of the following is NOT a feature of a wrap account?**

- A. A discretionary wrap allows the investor to choose the individual funds in which to invest.
- B. Wrap providers do not charge additional fees for their service.
- C. Wrap providers produce a single consolidated report on performance and distributions for tax returns.
- D. It allows retail investors to access wholesale managed funds.

**6**

**Which of the following is a risk particular to international funds?**

- A. Competition risk
- B. Currency risk
- C. Political risk
- D. Liquidity risk

**7**

**What, if any, licensing requirements apply to dealing in managed funds?**

- A. No licence is required because managed investments are not themselves securities.
- B. Managed investments and direct property are licensed under state laws.
- C. The Commonwealth Managed Investments Commissioner is responsible for licensing requirements.
- D. An AFSL issued by ASIC is required for anyone dealing in managed investments.

**8**

**Which of the following is best recommended to an investor where available asset allocation funds do NOT closely match the investor's high growth risk profile?**

- A. A balanced fund
- B. A combination of balanced funds
- C. A single sector fund
- D. A combination of sector funds

**Answer Grid.**

1. C
2. C
3. A
4. D
5. B
6. B
7. D
8. D



## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 15: Income Protection, Health and General Insurance

**1**

**Which of the following would not assist with living costs during a period of disablement?**

- A. Income protection
- B. Business overhead cover
- C. Life insurance
- D. Trauma insurance

**2**

**Income protection insurance is designed to:**

- A. be paid only when a terminal illness is diagnosed
- B. replace income lost while unable to work due to an illness or disability
- C. replace income during periods of unemployment
- D. provide unpaid income amounts to employees when an employer is unable to due to insolvency

**3**

**The benefit paid under an income protection policy is**

- A. a monthly payment defined in the policy as a percentage of pre-disability income
- B. a lump sum payment made on diagnosis of a specified medical condition
- C. a monthly payment defined in the policy as a multiple of the Centrelink disability benefit
- D. a monthly payment defined in the policy as a fixed dollar amount

**4**

**A qualifying period is**

- A. also known as the waiting period
- B. a period during which the insured has elected to receive no benefits
- C. commonly offered by insurers as 14, 30, 60 or 90 days
- D. all of the above

**5**

**An income protection policy would normally exclude which of the following?**

- A. Disability caused by accident
- B. Any disability not listed in the policy document
- C. Disability caused by illness
- D. War and suicide

**6**

**Business overhead insurance provides:**

- A. replacement income for the self-employed where the business is impaired due to incapacity
- B. cover for the direct costs of goods sold but not general business expenses
- C. cover for the payment of normal commissions even if no sales are made due to the absence of the disabled person
- D. the cost of redundancies necessary if the disability causes a downturn in business performance

**7**

**An example of cover provide by business protection cover is**

- A. depreciation
- B. water rates
- C. salaries of employees
- D. all of the above

**8**

**Medicare**

- A. is a federal government initiative
- B. provides treatment in hospital for a fee
- C. is funded by a levy of 1.55% of taxable income
- D. is funded by premiums which are fixed by regulation

**9**

**Medicare does not cover**

- A. hearing aids
- B. hospital costs
- C. any expenses incurred outside a hospital
- D. more than 75% of the cost of services provided to public patients by a hospital appointed doctor

**10**

**In relation to private health insurance the government has instigated the following initiatives**

- A. Medicare surcharge and a 40% private health insurance rebate
- B. Medicare levy and a 30% private health insurance rebate
- C. Medicare levy and compulsory health insurance for employees
- D. lifetime cover and Medicare surcharge for high income earners

**11**

**Non-insurance sources of funding when a person is disabled might include:**

- A. Sick leave, holiday and long service leave
- B. Workers compensation benefits
- C. Compulsory third party benefits
- D. All of the above

**12**

**Insurers may make a partial disability payment when an insured goes back to work part time in order to:**

- A. Encourage the person to go back to work
- B. Ensure that their total income is not less than when they were on full benefit
- C. Meet their legal obligations under contract law
- D. Match the terms commonly offered by competitors in this highly competitive industry

**13**

**Why do insurers only pay benefits up to 75% of the insured person's earned income?**

- A. To ensure that workers' compensation plus insured benefits combined do not exceed pre-disability income
- B. To meet the legal requirements of the Insurance Contracts Act
- C. To ensure that there is an incentive for the insured to return to work
- D. To ensure that the tax-free monthly insurance benefit is equivalent to the after-tax pre-disability earnings

**14**

**Why is investment income not added to earned income when calculating the maximum available income protection sum insured?**

- A. Because it is volatile and the insured can select against the office by increasing cover when markets are booming
- B. Because this income will continue even if the insured is disabled
- C. Investment income may be jointly held and so not belong fully to the insured
- D. Because such income is difficult to verify

**15**

**Subrogation is where:**

- A. The insured is entitled to sue a third party but this right is passed on to the insurance company.
- B. Both the insured and the third party's insurer share the cost of a claim.
- C. The insured has forfeited the right to a payment by their insurance company as a consequence of admitting fault.
- D. The payment from an insurer is reduced because the insured receives compensation from another source.

**Answer grid.**

- 1. C**
- 2. B**
- 3. D**
- 4. D**
- 5. D**
- 6. A**
- 7. D**
- 8. A**
- 9. A**
- 10. D**
- 11. D**
- 12. A**
- 13. C.**
- 14. B**
- 15. A**

## Financial Planning in Australia

### Multiple Choice Questions

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## Chapter 12: Bringing It All Together: Tax Planning

**1**

### Which statement is true regarding tax rulings from the ATO?

- A. The ATO can change an existing tax ruling, but only for future situations.
- B. The ATO makes rulings which are similar to a law; they cannot be challenged.
- C. The ATO is bound by public rulings but not by private rulings made for individuals.
- D. ATO rulings are secret and cannot be accessed by anyone other than the party receiving the ruling.

**2**

### Who can use the Small Taxation Claims Tribunal?

- A. Any taxpayer who is dissatisfied with the ATO's response to their objection, as long as the amount is less than \$5000.
- B. Any taxpayer who has been unsuccessful in the Federal Court.
- C. Any taxpayer who requests a review of the law involved in their taxation situation.
- D. Any taxpayer, as long as they are able to pay the tribunal's costs of \$2000.

**3**

### The ATO is an executive body and is subject to administrative law. Which of the following responses is correct?

- A. The ATO creates law by interpreting tax legislation on behalf of the government.
- B. The ATO administers all aspects of taxation law and is not subject to normal restraints imposed on other government departments.
- C. The ATO is not obliged to disclose any information regarding a decision on a taxpayer's situation because of government privilege.
- D. The ATO is subject to administrative law like every other government department and must make decisions fairly and according to natural justice.

### Question 4

Ali, an Australian citizen, travels overseas to the UK. Ali works for a few months and earns some income in the UK. What is Ali's tax liability in Australia?

- A. Ali does not have to pay Australian tax since the income was earned overseas.
- B. Ali must pay both UK and Australian tax on all sources of his income.
- C. Ali needs only to pay UK tax.

- D. Ali's tax will be subject to tax agreements existing between Australia and the UK; he may pay some Australian tax if UK tax is less than Australian tax.

**5**

**The ATO's role is basically to prosecute offenders and to ensure every person pays the maximum amount of tax possible. What is the most appropriate response to this comment?**

- A. Yes, the ATO is careful not to disclose too much information so that taxpayers cannot reduce their taxation.
- B. No, the ATO has many roles, including the dissemination of information, resolution of disputes and general assistance both to taxpayers and the government.
- C. Yes, that is why it is not possible to directly contact the ATO.
- D. Yes, because government relies on taxation revenue in order to run community institutions.

**6**

**Four amounts of \$1000 are received from four different sources by an investor with a 31.5% marginal tax rate. Which of the following lists ranks these amounts in order from the highest taxed to the lowest in the year of receipt of the money?**

- A. Bank interest, fully franked dividend, realised capital gain after 12 months, withdrawal from an insurance bond after 10 years.
- B. Bank interest, realised capital gain after 12 months, fully franked dividend, withdrawal from an insurance bond after 10 years.
- C. Withdrawal from an insurance bond after 10 years, bank interest, fully franked dividend, realised capital gain after 12 months.
- D. Realised capital gain after 12 months, bank interest, withdrawal from an insurance bond after 10 years, fully franked dividend.

**7**

**What is the difference between tax avoidance, tax evasion, and tax planning?**

- A. The selection of tax-efficient investment vehicles would be an example of tax evasion and is illegal.
- B. Failing to declare income is tax avoidance and is illegal.
- C. Setting up a complex web of companies and trusts with the sole intent to minimise taxation is tax planning and is legal.
- D. Paying a family member a salary from a business even though that member is not contributing to it is tax evasion and is illegal.

## Answer Grid.

1

- A. **Correct**, the ATO can change a ruling but only for future schemes, not retrospectively; they will be bound by previous rulings.
- B. Not correct, ATO rulings are not law; any ruling of the ATO (an executive body) is subject to court interpretation.
- C. Not correct, the ATO is bound by any of its rulings, at least with the individual who applied for it.
- D. Not correct, ATO rulings are public, published and available as guidance to all taxpayers.

2.

- A. **Correct**, a taxpayer can seek a review of disputes in the tribunal for amounts less than \$5000 as well as for objections regarding extensions of time to make an objection.
- B. Not correct, a party would first go to the tribunal, depending on the amount involved, and then to a higher court.
- C. Not correct, a tribunal would not determine questions of law; interpretation of the law can only take place by a court, eg, the AAT, the Federal Court or the High Court.
- D. Not correct, a taxpayer must pay \$68 to lodge a complaint and will not pay the costs of a tribunal.

3.

- A. Not correct, the ATO does interpret law but it does not create law, only the government or a court can do that.
- B. Not correct, the ATO is a government department and is subject to administrative law and executive restraints regarding privacy, citizens' rights and fairness.
- C. Not correct, the ATO is subject to Freedom of Information where a taxpayer seeks information on their situation.
- D. **Correct**, the ATO must comply with administrative law which requires decision making should conform with natural justice and proper, transparent procedures in its decision making.

4.

- A. Not correct, residents must pay tax on all sources of income.
- B. Not correct, there is a double tax agreement between Australia and the UK which allows for a credit for tax paid in another country.
- C. Not correct, Ali may have to pay Australian tax – though this is subject to the international agreement.
- D. **Correct**, the double tax agreement will determine what if any tax is payable in Australia. Tax might be payable if there is a difference in tax rates between the countries.

5.

- A. Not correct, the ATO disseminates guidelines and useful advice through its website and publications.
- B. **Correct**, the ATO has a guidance role which assists business, taxpayers and the government itself. The ATO is both an executive body and an advisory body.
- C. Not correct, all taxpayers have the right to contact and communicate with the ATO.



D. Not correct, while tax revenue is important, so is business and the ability to conduct enterprise within Australia. The ATO will give guidance on possible deductions and means of limiting tax as long as the taxpayer uses legal means to do so.

6.

- A. Not correct, realised capital gains are taxed more heavily than fully franked dividends for investors in low tax brackets.
- B. **Correct**, bank interest is fully taxed, insurance bond withdrawals are not taxed at all after 10 years, and realised capital gain is taxed more heavily than fully franked dividends for an investor in this tax bracket.
- C. Not correct, withdrawals from insurance bonds are not taxed after 10 years and this investor will pay less tax on franked dividends than on realised capital gain.
- D. Not correct, bank interest is taxed more heavily than realised gain and fully franked dividends are taxed more heavily than withdrawals from an insurance bond after 10 years.

7.

- A. Not correct, the selection of tax-efficient investment vehicles is a normal part of a financial planner's activities, and it is tax planning.
- B. Not correct, failing to declare income is tax evasion.
- C. Not correct, the use of schemes with no commercial benefit other than a reduction in tax is tax avoidance and is illegal.
- D. **Correct**, this illegal practice is tax evasion.

## Financial Planning in Australia

### Multiple Choice Questions

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#### CHAPTER 10: Taxation: Overview and Income

**1**

**Lee lives and works in Australia, he runs a small business and has received \$100,000 net income in the financial year ending 2009. Lee has private health insurance. What is his tax and Medicare liability?**

- A. \$25,450
- B. \$26,950
- C. \$28,950
- D. \$27,450

**2.**

**Shirley is 16 years of age and has commenced a full-time apprenticeship as a hairdresser. Shirley's father died the previous year leaving a trust under his will for Shirley to receive \$5000 a year till she is 25. What is Shirley's tax liability?**

- A. Shirley will pay not pay any tax because she is a child.
- B. Shirley as a child will pay penal rates on her combined income from the apprenticeship and the trust.
- C. Shirley will pay penal rates only on the income received from the trust.
- D. Shirley will pay ordinary tax like an adult since she is working full time.

**3**

**A personal taxpayer buys an investment property in 2000 for \$200,000 and then sells it in 2010 for \$500,000. The taxpayer earns \$60,000 in annual income. Which statement correctly describes the taxpayer's CGT position?**

- A. The house will be subject to capital gains, the taxpayer will discount the difference between the purchase cost and disposal price by 50% and put this on top of his annual assessable income for taxation.
- B. The house will not be subject to capital gains because it was purchased in the year 2000.
- C. The taxpayer will pay capital gains on the full amount of the gain made, ie, \$300,000.
- D. Capital gains are payable on the difference between the cost and sale receipts of the house; the taxpayer will not be able to claim any of the costs in purchasing or fixing the house.

**4**

**Mary is 55 years of age, is on a high income, and wishes to contribute \$1000 per month into her superannuation fund. Mary's employer will deduct the money and place it into the approved fund. Choose the correct response below.**

- A. Mary will still have to pay a high marginal tax rate on the contributions.
- B. Mary's contributions will be taxed at concessional rate of 15%.
- C. Salary sacrifice contributions are non-concessional and so will not be taxed in the fund.
- D. Mary cannot make contributions into the superannuation fund outside of her salary sacrifice.

**5**

**Sam bought a yacht for \$15,000 in January 2010 but sold it 6 months later for \$25,000 since it is a rare model. What are the capital gains implications?**

- A. Sam does not have to pay capital gains because boats like cars are an exempt asset for capital gains.
- B. Sam will have to pay capital gains but can claim the discount on the gain made.
- C. Sam's boat was purchased for hobby purposes and therefore is not subject to capital gains.
- D. Sam will need to pay capital gains on the total gain that he has made from the sale.

**6**

**Jim earns \$45,000 in salary in 2010. He also sells 10,000 shares at \$20 which he bought in a public offering 5 years previously for \$5 each. What total tax and Medicare will he pay in 2009/10?**

- A. \$33,050
- B. \$62,600
- C. \$34,850
- D. \$65,525

**7**

**What is the CGT consequence of donating to a charity an expensive work of art that has doubled in value since it was bought 6 years previously?**

- a) No CGT is payable as charities are tax exempt.
- b) The charity will pay CGT on acquisition.
- c) The donor will pay CGT but it will be exactly offset by the value of the tax deduction claimed for the donation.
- d) The donor will pay CGT but the tax deduction claimed for the donation is likely to be 4 times larger than the assessable gain.

## Answer Grid.

1.
  - A. Not correct, does not include Medicare.
  - B. **Correct**, he must pay Medicare but is not subject to a surcharge since he has private insurance.
  - C. Not correct because he is not liable to pay the surcharge.
  - D. Not correct because he is liable to pay Medicare but not the surcharge.
2.
  - A. Not correct, a child will pay tax either as an adult or at penal rates if a non-exempted child.
  - B. Not correct, she will pay tax at adult rates on all income since she works full time.
  - C. Not correct, trust income will be added to her regular income, there are no penal rates since she works full time.
  - D. **Correct**, she has full-time work and pays tax like an adult, though she might receive a low income tax offset.
3.
  - A. **Correct**, the year 2000 was after the indexation period and because the house is held for more than one year a 50% discount can be applied.
  - B. Not correct, property since 1985 has been subject to capital gains. Only where the house is a residence can it be exempt from capital gains.
  - C. Not correct, the taxpayer is entitled to a discount because he held it for more than one year.
  - D. Not correct, a taxpayer can claim the cost base of the asset and this includes all incidental costs.
4.
  - A. Not correct, the funds are taxed at a concessional rate of 15% if contributed from a salary into the super fund.
  - B. **Correct**, the contributions are taxed at 15% if contributed straight from her pay and under the capped limit.
  - C. Not correct, the contributions are concessional and so deductible to the employer and taxed at 15% in the fund.
  - D. Not correct, a person is entitled to make contributions at any time, though they are capped at a certain rate according the age of the contributor.
5.
  - A. Incorrect, boats are personal use assets and subject to capital gains if purchased for more than \$10,000.
  - B. Incorrect, the asset was held for less than 12 months and therefore the amount will be subject to full capital gains and no discount is available.
  - C. Incorrect, it is still a personal use asset because it was purchased for more than \$10,000.
  - D. **Correct**, because the boat was purchased for more than \$10,000, it is a personal use asset and was disposed of within 12 months.

6.

- A. Not correct, Jim is obliged to pay Medicare.
- B. Not correct, Jim is entitled to the 50% discount on the capital gain and will also be obliged to pay Medicare.
- C. Correct.**
- D. Not correct, Jim is entitled to the 50% discount on the capital gain.

7.

- A. Not correct, the artwork has been disposed of and the tax status of the charity is irrelevant to the tax obligations of the previous owner.
- B. Not correct, CGT is payable on disposal, not on acquisition.
- C. Not correct, the deduction will be for the value of the work of art, but the assessable income will be 50% of the gain.
- D. **Correct.** If the work is valued at \$X and has doubled in value, it was acquired for \$X/2 and the gain will be \$X/2. 50% of that gain will be assessable, or \$X/4. The value of the deduction will be the value of the donation, which is \$X, which is 4 times greater.

# Financial Planning in Australia

## Multiple Choice Questions

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### CHAPTER 19: Statement of Advice Construction

1

**Soft dollar commissions are:**

- A. Another term for an entry fee
- B. A benefit received by the financial adviser that might influence the recommendation of a particular investment
- C. A benefit received by a third party
- D. An ongoing review fee paid by the client which gets paid to the adviser as a commission

2

**Why is the discussion of insurance cover with a client so important?**

- A. Because most clients do not like discussing insurance with an adviser
- B. Insurance policies pay high commissions to advisers
- C. Appropriate insurance cover can help to ensure that the client's goals can be achieved
- D. It is only important if you know that the client can afford the premiums

3

**Which of the following would NOT form part of the basis for advice?**

- A. A chart or table documenting the client's assets and liabilities
- B. An analysis of the client's current investments excluding any properties they may own
- C. A list of all personal and financial assumptions that have been made
- D. Discussion of the client's personal risk tolerance

4

**Which of the following are factors that should be taken into consideration when assessing a client's tolerance to risk?**

- A. Investment timeframe
- B. Previous investment experience
- C. Level of volatility the client is comfortable with
- D. All of the above

5

**Why are annual reviews such an important part of the financial planning process?**

- A. Advisers need to generate an ongoing source of income from review fees.
- B. A new managed fund has been launched which an adviser is putting all his clients into.
- C. They allow for the changing nature of client's circumstances and that of financial markets.
- D. They ensure that clients do not switch to a different financial adviser.

6

**Should recommendations about Wills and Powers of Attorney appear in an SOA?**

- A. Yes, they are important parts of an organised financial life.
- B. No, financial planners are not legally qualified and Wills should not be mentioned.
- C. No, Wills are important, but they are not financial matters and so should not be included with financial recommendations.
- D. Not if the whole estate is intended to be left to a spouse, as that is the result of intestacy anyway.

7

**How are financial plans implemented?**

- A. The adviser presents the plan in an SOA and the client takes it from there.
- B. The planner is responsible for implementing all aspects of the plan that is presented.
- C. An implementation schedule should be presented as part of the SOA with details of each task to be completed and who is responsible for it.
- D. An implementation schedule should be completed, but it cannot legally be included in the SOA because it is not part of the advice.

## Answer Grid.

1. B
2. C
3. B
4. D
5. C
6. A
7. C



## Financial Planning in Australia Multiple Choice Questions

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### Chapter 11: Taxation: Deductions, Offsets and Other Taxes

**1**

**A taxpayer chooses not to repair the roof on his factory (cost of \$5000) but instead replaces the whole roof at a cost of \$15,000. What is the correct response below?**

- A. The taxpayer can claim the outgoing expense of replacing the roof as a repair which is deductible against his income.
- B. The taxpayer has substantially replaced part of the structure; this is a capital outgoing and not deductible.
- C. The taxpayer paid less when acquiring the factory, therefore subsequent repairs should be deductible.
- D. The taxpayer could have repaired the roof; therefore the replacement of the roof is similar to a repair and is deductible.

**2**

**Sue works as a lawyer in a city firm, she does a lot of work at home and has one room of her house set aside for work. Sue claims all the expenses of the room as a home office, including a proportion of the council rates, mortgage interest and repairs to the house.**

- A. Sue can claim all expenses relating to the room because it is directly related to her earning income as a lawyer.
- B. Sue cannot claim any expenses since the house is for personal use and not deductible.
- C. Sue's purchase of the house is a capital asset and therefore no deductions are available to her.
- D. Sue can claim expenses of a home study, which are running costs, but not interest or council rates since that is personal.

**3**

**What are the differences in documentary requirements for travel domestically and overseas?**

- A. If travelling less than 6 nights in a row, a diary is required for overseas travel but not for domestic.
- B. If travelling more than 6 nights in a row, a diary is required for overseas travel but not for domestic.
- C. If travelling more than 6 nights in a row, written evidence is required for overseas travel but not for domestic.
- D. There is no difference in the requirements.

#### Question 4

A tax offset has the effect of lowering the amount of tax for a taxpayer by:

- A. Giving eligible taxpayers a deduction for such things as the medical insurance
- B. Allowing taxpayers to reduce their actual tax for specific items rather than reducing income
- C. Allowing every taxpayer to claim an offset irrespective of their circumstances
- D. Allowing only those with minimal income to be able to claim any of the offsets

#### Question 5

Which of the following has the effect of lowering the ATI?

- A. A tax deduction
- B. A tax offset
- C. Salary sacrificing to superannuation
- D. Creating a loss through negative gearing

#### Question 6

A partnership is an excellent method of reducing overall tax since income can be spread over many participants, including all family members.

- A. Partnerships may come under ATO scrutiny if income is being distributed to persons, including family members, who are not really working in the partnership.
- B. Partnerships are primarily used, particularly in family circumstances, because there are no capital gains payable.
- C. Partnerships have the disadvantage that they cannot be classed as a small business.
- D. Partnerships pay tax and then pass the dividend to each of its participants.

#### Question 7

A business may be held within a trust which allows for business income to be distributed to various beneficiaries.

- A. The trust is useful since if no income is distributed then no tax is payable.
- B. The trustee is the only party liable for tax on a trust.
- C. Where a minor receives income from a trust they will normally be taxed at penalty rates.
- D. A taxpayer can use trust losses to reduce their assessable income and to reduce their overall tax liability.

## Answer Grid

1.

- A. Not correct, replacement is a substantial change to the structure of the asset which is of a capital nature and is not deductible, except through depreciation.
- B. **Correct**, substantial changes are capital and not deductible under the negative limbs.
- C. Incorrect, paying less for an asset means that a capital item is purchased at a discount and subsequent spending on the structure is part of the capital expense.
- D. Incorrect, even though something can be repaired, if it is replaced, then it is classed as capital expenditure; there is no allowance for pro rata repairs.

2.

- A. Not correct, she can only claim running expenses as a proportion of the house; general expenses such as rates and interest are personal and not deductible. A home study can be claimed, not a home office.
- B. Not correct, she can claim expenses available for a home study.
- C. Not correct, the house is a capital asset but the running expenses of a home study are deductible.
- D. **Correct**, recurring expenses that relate to the study such as lighting, heating and cooling are available to a taxpayer who has a home study.

3.

- A. Not correct, a diary is not required in either case.
- B. Not correct, a diary is required in both cases.
- C. Not correct, written evidence is required in both cases.
- D. **Correct**, a diary is not required for either domestic or international travel of less than six nights in a row, and for all other travel both written evidence and a diary is required.

4.

- A. Not correct, an offset is not a deduction but actually lowers the tax itself directly.
- B. **Correct**, an offset directly reduces tax payable for particular taxpayers when spending on very particular categories of outgoings.
- C. Not correct, not every taxpayer can claim an offset, much depends on the offset claimed and many of these require some qualification such as level of income or numbers of family members.
- D. Not correct, offsets are available for a variety of categories; eg, the Medicare offset is available if a taxpayer on a high income takes out private insurance.

5.

- A. **Correct**, taxable income is a component of the ATI and taxable income is lowered by tax deductions.
- B. Not correct, tax offsets reduce tax payable but do not reduce any component of the ATI.
- C. Not correct, reportable superannuation contributions are part of the ATI, so switching money from assessable income to superannuation contributions will not change the ATI.
- D. Not correct, net investment losses are added back to ATI, so creating a loss through negative gearing will not be effective in reducing the ATI.

6.

- A. **Correct**, where a partnership is used to alienate income then the distribution of income may be disallowed.
- B. Not correct, partnerships are used in a variety of relationships and participants will be subject to capital gains tax.
- C. Not correct, a partnership can be a small business if it qualifies under the STS criteria.

- D. Not correct, partnerships do not pay tax nor distribute dividend; individual partners pay their own tax from their individual receipts.
- 7.
  - A. Not correct, either the trustee or the beneficiaries must pay tax, unless there is some special situation concerning the beneficiaries, eg, as an orphan.
  - B. Not correct, the beneficiary pays tax if presently entitled, or else the trustee is liable.
  - C. **Correct**, minors who receive distributions will pay at high marginal rates as this is a form of alienation – unless there is dispensation granted by the ATO.
  - D. Not correct, losses from trusts can only be offset against gains from the trust, not against any other gains.

## Financial Planning in Australia

### Multiple Choice Questions

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### CHAPTER 17: Social Security

**1**

**It is May 2010 and Jacob is a 66-year-old pensioner who is Assets Tested (ie, his level of assets is causing him to have a lower entitlement to the Age Pension). Which type of investment would assist him most to increase his level of Age Pension?**

- A. Allocated income stream
- B. Superannuation (accumulation phase)
- C. Four year term income stream
- D. There will be no difference between them

**2**

**Ed (age 68) and Pam (age 61) are applying for the Age Pension. Given their assets listed below, what is their level of assets assessed by Centrelink?**

Ed's superannuation	\$375,000
Ed's 20 year term allocated pension (purchased August 07)	\$100,000
Pam's superannuation	\$75,000
Managed funds (in Ed's name)	\$28,500
Joint bank account	\$13,000
Two cars	\$25,000
Contents (firesale value)	\$10,000
Principal residence	\$550,000

- A. \$626,500
- B. \$501,500
- C. \$591,500
- D. \$551,500

**3**

**Jill commenced an account based pension on her 65th birthday (life expectancy 21.62) with \$250,000. The initial balance of the pension is made up of \$75,000 tax exempt and \$175,000 taxable components. She draws down \$20,000 per annum. Calculate how much income will be assessable by Centrelink.**

- A. \$8,437

- B. \$20,000
- C. \$8,094
- D. \$6,000

**4**

**Mark is 20 years old and unemployed. Which statement is true?**

- A. He is not eligible for Newstart allowance.
- B. He can receive Newstart allowance if he meets an activity test.
- C. He can receive Newstart allowance if he is actively seeking work.
- D. He can receive Newstart allowance because he is 20 years old.

**5**

**Which of the following is assessable under the social security Assets Test?**

- A. Income streams (subject to specific rules)
- B. Proceeds from the sale of a previous home which will be used within 12 months to purchase another home
- C. The value of an accommodation bond paid to a hostel
- D. Superannuation and rollover funds where the owner is under Age Pension age

**6**

**Which of these is true for Assets Tested long-term income streams?**

- A. They are complying pensions for social security purposes.
- B. They have terms greater than 10 years.
- C. Income is deemed for social security purposes.
- D. They have no term or a term greater than 5 years.

**7**

**Which of the following may be a feature of a lifetime income stream which qualifies as a social security complying income stream?**

- A. The size of the income payments can vary from month to month.
- B. There can be a residual capital value at the end of the term.
- C. The income stream cannot be commuted except under certain conditions.
- D. There is no maximum indexation limit.

**8**

**Which of the following are exempt under the Assets Test for social security purposes?**

- A. A motor vehicle
- B. Holiday home
- C. Home contents

D. None of the other options are correct

**9**

**For Assets Test exempt (complying) income streams, how is income for the Income Test calculated for social security purposes?**

- A. Annual income less (purchase price divided by term/life expectancy)
- B. Annual income less (purchase price divided by annual income)
- C. Deeming rules are applied to the purchase price
- D. Income is 100% exempt

**10**

**How is superannuation treated under the social security Assets Test?**

- A. Exempt if the person is over the Age Pension qualifying age and the funds are in accumulation phase
- B. Exempt if the person is under the Age Pension qualifying age and the funds are in accumulation phase
- C. Always exempt
- D. Exempt if the person is under the Age Pension qualifying age and the money is used for an account based income stream

**Answer Grid.**

1. D
2. B
3. A
4. A
5. A
6. D
7. C
8. D
9. A
10. B



# Financial Planning in Australia

## Multiple Choice Questions and Answers

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### CHAPTER 4: Financial Reports and Plans

1.

**Jones family use cash savings to repay a loan from a bank. What is the effect in the balance sheet of the individual?**

- A. Assets increase: liabilities increase
- B. Assets decrease: liabilities increase
- C. Assets increase: liabilities decrease
- D. Assets decrease: liabilities decrease

2.

**Smith family purchased a Volvo car for \$42,000 by making a \$4000 cash payment and getting a loan of \$38,000 from a finance firm. What net impact did this transaction have on their balance sheet?**

- A. Assets decreased: liabilities increased
- B. Assets increased: liabilities increased
- C. Assets increased: liabilities no change
- D. Assets decreased: liabilities decreased

3.

**The following was reported in Rex's household accounts:**

Salaries	440,000
Household expenses paid	210,000
Loan payments	15,000
Interest paid	10,000
Utilities bills unpaid	5,000
Taxes due	10,000
School fees paid	7,000

**What was the cash surplus?**

- A. 230,000
- B. 198,000
- C. 193,000
- D. 183,000

4.

**In what category are jewellery and artwork normally placed in the household balance sheet?**

- A. Liquid assets
- B. Investments
- C. Real property
- D. Personal property

### **Questions 5 to 8**

**Estimate the following budget amounts for Thom's household for 2010  
Thom's expected account patterns relative to income for 2010 are:**

Household expenses	65.0%
Personal expenses	9.0%
Other expenses	6.0%
Interest expenses	1.4%
Taxes	15.0%
Cash surplus	3.6%

Total household income for 2010 is projected to be \$700,000.

What are:

**5**

**Expected 2010 household expenses?**

- A. \$455,000
- B. \$518,000
- C. \$560,000
- D. \$569,800

**6**

**Expected 2010 interest expenses?**

- A. \$6370
- B. \$9800
- C. \$15,400
- D. \$25,200

**7.**

**Expected 2010 tax expenses?**

- A. \$42,000
- B. \$53,200
- C. \$95,200
- D. \$105,000

**8**

**Expected 2010 cash surplus?**

- A. \$15,400
- B. \$25,200
- C. \$32,200
- D. \$35,000

**9**

**Ratios provide a \_\_\_\_ measure of a household's performance and condition.**

- A. Definitive
- B. qualitative
- C. gross
- D. relative

**10.**

**In ratio analysis, a comparison to prior years' ratios is made to isolate \_\_\_\_ deviations from the norm.**

- A. standard
- B. any
- C. negative
- D. positive

**11.**

**The adviser should be careful when evaluating a ratio analysis to ensure:**

- A. the same accounting procedures were used.
- B. the dates of the financial statements being compared are the same.
- C. all financial statements are used.
- D. all of the above.

**12.**

**The \_\_\_\_ ratio is primarily a measure of the cushion in the net worth.**

- A. solvency
- B. liquidity
- C. debt service
- D. savings

**13.**

**The \_\_\_\_ ratio of a household is measured by its ability to satisfy its short-term obligations as they become due.**

- A. debt service
- B. solvency
- C. liquidity
- D. savings

**14.**

**The \_\_\_\_ ratio is a measure of the cash surplus generated from after-tax income.**

- A. savings
- B. solvency
- C. liquidity
- D. debt service

**15.**

The \_\_\_\_ ratio provides the information critical to the long-run prospect of the household.

- A. liquidity
- B. savings
- C. solvency
- D. debt service

Use the following information to answer the following questions (Questions 16–20).

Income & Expenditure Statement  
for year ended Dec.31, 2010

Salaries	100,000
Household Expenses Paid	80,000
Other Expenses      Paid	5,000
Loan Payments	13,000
Interest Paid	<u>500</u>
Cash Surplus	<u>1,500</u>

Balance Sheet as at Dec. 31, 2010

Assets

Liquid Assets	1,000
Investments	13,250
Personal Property	<u>21,750</u>
Total	36,000

Liabilities and Net Worth

Current Liability	5,675
Long-term Liabilities	<u>14,125</u>
Total Liabilities	19,800
Net Worth	<u>16,200</u>
Total	<u>36,000</u>

16.

The solvency ratio is:

- A. 12.18%
- B. 45.0%
- C. 1.5%
- D. 13.0%

17.

The liquidity ratio is:

- A. 12.18%
- B. 18.9%
- C. 14.7%
- D. 16.3%

18.

The debt service ratio is:

- A. 12.18%
- B. 18.9%
- C. 14.7%
- D. 16.3%

**19.**

**If the 2010 tax bill for the household is \$2,300 and remains unpaid at 31 December, then the cash surplus for 2010 will be:**

- A. (800)
- B. 3,800
- C. 1,500
- D. Zero.

**20.**

**If the investments in 2011 balance sheet were to increase by 10% and current liabilities also by 10%, with everything else remaining the same, then the net worth for 2011:**

- A. would decrease.
- B. would remain the same.
- C. would increase.
- D. cannot be determined.

**Answer Grid:**

1. D

2. B
3. B
4. D
5. A
6. B
7. D
8. B
9. D
10. B
11. D
12. A
13. C
14. A
15. D
16. B
17. A
18. D
19. C
20. C

## Financial Planning in Australia

### Multiple Choice Questions and Answers

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#### CHAPTER 13: Personal Credit, Debt and Lending

1.

**Usually the worst kind of debt is:**

- A. Borrowing to invest
- B. Borrowing to purchase depreciating assets
- C. Borrowing to fund lifestyle
- D. borrowing to purchase appreciating assets

2.

**Mark currently owes \$280,000 on a bank loan for his home valued at \$400,000. Mark wants to borrow more money to purchase a new car. If the bank is willing to lend Mark up to 80% of his home, Mark will be able to borrow up to an additional:**

- A. \$56,000
- B. \$40,000
- C. \$96,000
- D. \$120,000

3.

**William and Kate are planning on selling their family home which they own (valued at \$500,000) and moving to a more expensive area where they will need to pay around \$850,000 for their new residence. If they borrow the difference from their bank at 7.2% pa with a term of 25 years, how much (to the nearest \$50) will their monthly repayments be?**

- A. \$3,550
- B. \$2,500
- C. \$3,000
- D. \$2,100

4.

**Marie purchases some new furniture for \$5000 on her credit card. The interest rate is 18% pa. If Marie does not use her credit card again and pays only the minimum monthly payment of \$40 plus 5% of her balance, how much will she owe after 6 months?**

- A. \$3,260
- B. \$3,812
- C. \$3,329
- D. \$3,995

**5.**

**Bill needs a new washing machine and sees one on sale for \$500, a saving of \$100. Bill decides to take advantage of the saving and puts the sale on his credit card that has a rate of 16% per annum. If Bill can afford to pay \$300 on the credit card after one month and the balance after two months, how much would Bill really have saved by purchasing the washing machine?**

- A. \$100
- B. \$19
- C. \$91
- D. \$81

**6.**

**In Australia, as part of fair and unbiased lending criteria, lenders may require:**

- A. Level of income of the borrower
- B. Level of assets available as security
- C. Credit history
- D. All of the above

**7.**

**Using simple interest – if you lent someone \$5000 at the beginning of the year at 4.5% per annum, you would expect to receive the following interest payment at the end of the year.**

- A. \$225
- B. \$2.25
- C. \$27
- D. \$2.27

**8.**

**Bankruptcy law (that is, the Bankruptcy Act 1966 (Cth)) seeks to:**

- A. Provide an easy way out of debt
- B. Have the debt repaid to the extent possible
- C. Cancel the debt
- D. All of the above



**9.**

**Which of the following is a sure sign that credit and debt may be getting the better of an individual:**

- A. Money is being borrowed to pay off credit card debt
- B. A car is bought under a lease rather than for cash
- C. Credit is being used to invest
- D. A personal loan is taken out for a holiday

**10.**

**Lisa borrows \$100,000 at 10% per annum, compounded monthly. Of this money, she uses \$30,000 for an in-ground pool for her home and the balance to purchase some shares. At the end of the financial year, assuming Lisa has not yet made any loan repayments, how much will Lisa be able to claim as a tax deduction?**

- A. Nothing
- B. \$10,471
- C. \$3,141
- D. \$7,330

**11.**

**Michelle wants to save some money. She can afford to put \$20,000 into a savings program. At the end of five years, assuming all interest is re-invested, which product will provide the best return?**

- A. Product A which pays 5% compounded and paid monthly
- B. Product B which pays 4% compounded and paid annually
- C. Product C which pays 4% compounded and paid monthly
- D. Product D which will grow to \$25,000 by the end of five years.

**12.**

**For an investor, which of the following statements is TRUE?**

- A. The nominal rate of interest is usually higher than the effective interest rate.
- B. The nominal interest rate and effective interest rate mean the same thing.
- C. The nominal rate of interest is the advertised rate.
- D. The nominal interest rate is the actual return that the investor will receive.

**13.**

**Which of the following statements is FALSE in regards to gearing?**

- A. Income received from a large investment portfolio can be used to assist in payment of interest on borrowings.

- B. Income received from a large investment portfolio can be reinvested back into the portfolio to compound its growth.
- C. Interest costs on borrowed funds are generally allowable tax deductions.
- D. Interest costs on borrowed funds are reduced by the amount of franking credits.

**14.**

**Chen has \$50,000 of his own money to invest. He has a margin loan available to add to this money to purchase Australian shares. The bank's loan-to-value ratio (LVR) is 75%. How much does Chen have available to purchase a portfolio?**

- A. \$37,500
- B. \$150,000
- C. \$200,000
- D. \$87,500

**15.**

**Mandy has a portfolio currently worth \$100,000 and has a margin loan of \$60,000. The bank's loan-to-value ratio is 70%. If her portfolio balance were to drop to \$80,000 the bank would issue a margin call for:**

- A. \$14,000
- B. \$28,000
- C. \$10,000
- D. \$4,000

**16.**

**Negative gearing is:**

- A. Where the interest payments are approximately the same level as income earned from an investment
- B. Where income earned from the investment is significantly less than interest paid on the borrowing
- C. Where income earned from the investment is higher than interest paid on the borrowing
- D. The least risky gearing to use

**17.**

**George earns \$90,000 and has \$20,000 in savings earning 4% per annum. If George borrows \$100,000 at 8.5% per annum to purchase shares, what would be his income from all sources net of tax and interest? Assume a tax rate of 41.5% and that shares pay 5% per annum fully franked.**

- A. \$62,610
- B. \$73,253

- C. \$57,610
- D. \$60,467

**18.**

**If you were to deposit \$1000 for one year at 7.2% per annum, paid semi-annually, your balance at the end of one year would be:**

- A. \$1072.00
- B. \$1072.30
- C. \$1062.00
- D. \$1073.30

**19.**

**A line of credit facility:**

- A. Does not have a debt limit
- B. Requires principal payments
- C. Has monthly interest charged
- D. Usually has an interest rate lower than the standard variable rate

**20. Billy needs \$35,000 per annum to live on in today's dollars. If inflation remains low at 3% for the next 10 years, what amount will have the same buying power in 10 years' time?**

- A. \$45,500
- B. \$47,037
- C. \$45,000
- D. \$35,000

## Answer Guide

1. **C.** See pg 434

2. **B.** Workings:  $\$400,000 \times 80\% = \$320,000$  less original debt of  $\$280,000 = \$40,000$

3. **B.** Workings: Enter to Excel or a financial calculator  $PV = 350,000$ ;  $i = 7.2\%/12 = 0.006$ ,  $n = 5\text{yrs} \times 12\text{mths} = 60$

4. **B.** Workings:

Month	1	2	3	4	5	6
Opening Balance	5,000.00	4,781.25	4,573.91	4,373.82	4,180.74	3,994.41
Interest	75.00	71.72	68.61	65.61	62.71	59.92
Min Payment	293.75	282.65	272.13	261.97	252.17	242.72
Balance	4,781.25	4,570.32	4,370.39	4,177.46	3,991.27	3,811.61

5. **C.** Workings:

Month	1	2
Opening Balance	\$500.00	206.67
Plus Interest	\$ 6.67	2.76
Total payment	\$300.00	209.42
Balance	\$206.67	-

Saving =  $\$600 - \$500 - (\$6.67 + \$2.76) = \$90.58$

6. **D.** See pg 450–1

7. **A.** Workings:  $\$5000 \times 0.045 = \$225$

8. **B.** See pg 452

9. **A.** See pg 447

10. **D.** Workings: Interest =  $70,000(1 + (10\%/12))^{12} - 70,000$

11. **A.** Workings:  $\$20,000((1+5\%/12)^{60} - 1) = \$25,667$ , which is the best result.

12. **C.** See pg 456

13. **D.** See pg 460–4

14. **C.** Workings: An LVR of 75% means that Chen's debt as a percentage of the total value of his portfolio cannot go above 75%. Therefore if Chen already has \$50,000 of his own money, he can purchase a portfolio up to  $\$50,000/(1-0.75)$ .

15. **D.** Workings: 70% of  $\$80,000 = \$56,000$ . Margin loan currently at  $\$60,000$ , therefore margin call issued for  $\$60,000 - \$56,000 = \$4,000$

16. **B.** See pg 463

17. **A.** Workings:

<b>Salary</b>	90000
<b>Interest</b>	800
<b>Franked dividends</b>	5000
Franking credits	2143
Assessable Income	97943
<i>Less interest expense</i>	8500
Taxable Income	89443
Income tax	26833

Less Franking rebate	2143
<i>Total tax</i>	<i>24690</i>
Income after tax and interest*	<b>62610</b>

\***Revenue items** less *outgoings*

**18. D.** Workings: Semi-annually means the interest is paid every 6 months.

Therefore:  $FV = 1000(1+(0.072/2))^2$ .

**19. C.** See pg 441

**20. B.** Workings:  $35,000 \times 1.03^{10}$