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QUESTION 1

On Brian's death, his estate was valued at £820,000. He bequeathed £40,000 to a registered charity and split the balance equally between his registered civil partner and his brother. Assuming he made no lifetime transfers, what will the Inheritance Tax liability be?

- A. £22,750
- B. £26,000
- C. £29,750
- D. £34,000

Answer: B

QUESTION 2

Trevor is a member of a defined benefit company pension scheme. Which factor relating to his circumstances confirms that he will avoid incurring a special annual allowance charge in the current tax year?

- A. He is a member of an Employer Financed Retirement Benefit Scheme (EFRBS)
- B. He is aged 61
- C. His total annual earnings have never exceeded £110,000
- D. His benefits include the maximum level of death benefit

Answer: C

QUESTION 3

Stephen is about to commence taking benefits from his personal pension scheme, which includes protected rights. He should be aware that:

- A. He can take up to 25% of the total fund as a pension commencement lump sum
- B. He has the right to exercise the open market option
- C. His whole pension fund must provide limited price indexation in payment
- D. The value of the protected rights element will not count towards the lifetime allowance

Answer: AB

QUESTION 4

Frank, age 55, is considering adopting a lifestyle investment technique as he aims to build up his personal pension prior to retirement. He should be aware that:

- A. The asset mix of the fund will be adjusted automatically on pre-determined dates
- B. His ongoing exposure to equities will reduce with lifestyle investing
- C. After 10 years, a maximum of 25% of the investments will be in bonds
- D. Lifestyle investing is likely to be appropriate if he intends to purchase a conventional annuity with his entire fund.

Answer: ABD

QUESTION 5

Under an employer's group life assurance policy, what is the normal tax treatment of the death

benefit?

- A. It is liable to Inheritance Tax
- B. It is liable to Capital Gains Tax
- C. It is liable to Income Tax
- D. It is not liable to any form of taxation

Answer: D

QUESTION 6

If an income protection insurance (PHI) policy has reviewable premiums, this usually means that the insurance company can:

- A. Alter the cost of the cover
- B. Withdraw cover on any anniversary date
- C. Only increase premiums in line with inflation
- D. Pay benefits for less than the full period of incapacity

Answer: A

QUESTION 7

Apart from comparing cover and costs, what other key factor should usually be considered if a financial adviser intends to recommend that a client cancels an existing term assurance policy and replaces it with a new one?

- A. The insurable interest
- B. The underwriting requirements
- C. The secondhand policy market value
- D. The chargeable gains

Answer: B

QUESTION 8

It's a detailed financial report that looks forward, based on expected income and expenses.

- A. Balance sheet
- B. Income Statement
- C. Budget
- D. Equity turnover

Answer: C

QUESTION 9

The actual value of an asset, or the price of an asset, or the price for which it can reasonably be expected to sell in the open market is its:

- A. Actual price
- B. Book value
- C. Depreciation amount

D. Fair market value

Answer: D

QUESTION 10

Tangible assets that are immovable: land and anything fixed to it, such as a house is a person's:

- A. Investment
- B. Real property
- C. Liability
- D. Open credit obligation

Answer: B

QUESTION 11

It is actually a method of preparing financial statements in which only transactions involving actual cash outlays are recorded.

- A. Cash basis
- B. Expense
- C. Equity
- D. Cash deficit

Answer: A

QUESTION 12

An excess amount of expense over income resulting in insufficient funds as well as in decreased net value is called:

- A. Cash deficit
- B. Limited Liability
- C. Cash basis
- D. Net worth

Answer: A

QUESTION 13

Total liquid assets divided by total current debts; measures the ability to pay current debts. It is:

- A. Solvency ratio
- B. Liquidity ratio
- C. Savings ratio
- D. Debt service ratio

Answer: B

QUESTION 14

Total net worth divided by total assets; measures the degree of exposure to insolvency is:

- A. Solvency ratio
- B. Liquidity ratio
- C. Savings ratio
- D. Debt service ratio

Answer: A

QUESTION 15

Cash surplus divided by net income (after tax); indicates relative amount of cash surplus achieved during a given period is:

- A. Solvency ratio
- B. Liquidity ratio
- C. Savings ratio
- D. Debt service ratio

Answer: C

QUESTION 16

Total monthly loan payments divided by monthly gross (before-tax) income; provides a measure of the ability to pay debts promptly is:

- A. Solvency ratio
- B. Liquidity ratio
- C. Savings ratio
- D. Debt service ratio

Answer: D

QUESTION 17

A cash budget is the valuable money management tool that helps you EXCEPT:

- A. Maintain the necessary information to monitor and control your finances
- B. Decide how to allocate your income to reach your financial goals
- C. Implement a system of disciplined spending-as opposed to just existing from one paycheck to the next
- D. Enhance needless spending so you can increase the funds allocated to savings and investments

Answer: D

QUESTION 18

Budget control schedule is:

- A. A summary that shows how actual income and expenses compare with the various budget categories
- B. A summary that shows how actual income and expenses compare with the various budget categories and where variances (surplus or deficit) exist
- C. A graphical presentation of cash flows

D. The interest earned each year

Answer: B

QUESTION 19

"Shareholder wealth" in a firm is represented by:

- A. The number of people employed in the firm
- B. The book value of the firm's assets less the book value of its liabilities
- C. The amount of salary paid to its employees
- D. The market price per share of the firm's common stock

Answer: D

QUESTION 20

The long-run objective of financial management is to:

- A. Maximize earnings per share
- B. Maximize the value of the firm's common stock
- C. Maximize return on investment
- D. Maximize market share

Answer: B

QUESTION 21

What are the earnings per share (EPS) for a company that earned \$100,000 last year in after-tax profits, has 200,000 common shares outstanding and \$1.2 million in retained earnings at the year end?

- A. \$100,000
- B. \$6.00
- C. \$0.50
- D. \$6.50

Answer: C

QUESTION 22

A single, overall cost of capital is often used to evaluate projects because:

- A. It avoids the problem of computing the required rate of return for each investment proposal
- B. It is the only way to measure a firm's required return
- C. It acknowledges that most new investment projects have about the same degree of risk
- D. It acknowledges that most new investment projects offer about the same expected return

Answer: A

QUESTION 23

The cost of equity capital is all of the following Except:

- A. The minimum rate that a firm should earn on the equity-financed part of an investment
- B. A return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged
- C. By far the most difficult component cost to estimate
- D. Generally lower than the before-tax cost of debt

Answer: D

QUESTION 24

If the following are balance sheet changes:

\$5,005 decrease in accounts receivable
\$7,000 decrease in cash
\$12,012 decrease in notes payable
\$10,001 increase in accounts payable

"use" of funds would be the:

- A. \$7,000 decrease in cash
- B. \$5,005 decrease in accounts receivable
- C. \$10,001 increase in accounts payable
- D. \$12,012 decrease in notes payable

Answer: D

QUESTION 25

The concept that dollar today is worth more than a dollar received in future. It is:

- A. Time value of money
- B. Compounding
- C. Timeline
- D. Future value

Answer: A

QUESTION 26

Rule 72 is:

- A. A useful formula for estimating how long it will take to double a sum at a given interest rate
- B. A useful formula for estimating how long it will take to triple a sum at a given interest rate
- C. A useful formula for estimating how long it will take to graphically represent the time value of money
- D. A useful formula for estimating how long it will take to make the future value of deposited money

Answer: A

QUESTION 27

On an accounting statement of cash flows an "increase(decrease) in cash and cash equivalents"

appears as:

- A. A cash flow from operating activities
- B. A cash flow from investing activities
- C. A cash flow from financing activities
- D. None of the above

Answer: D

QUESTION 28

Uses of funds include a (an):

- A. Decrease in cash
- B. Increase in any liability
- C. Increase in fixed assets
- D. Tax refund

Answer: A

QUESTION 29

A tax structure in which the larger the amount of taxable income, the higher the rate at which it is taxed is:

- A. Marginal tax rate
- B. Progressive tax structure
- C. Tax bracket
- D. Immovable tax structure

Answer: B

QUESTION 30

Average tax rate:

- A. Is the rate at which each dollar of taxable income is taxed on average; calculated by dividing the tax liability by taxable income
- B. Is the rate at which each dollar of taxable income is taxed annually; calculated by dividing the tax liability by taxable income.
- C. Is the rate at which each dollar of taxable income is taxed on average; calculated by dividing the tax liability by non-taxable income
- D. Is the rate at which each dollar of taxable income is taxed on average; calculated by dividing the tax liability by expenses

Answer: A

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