FP Canada
Standards Council™

SAMPLE STAND ALONE MULTIPLE CHOICE QUESTIONS

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QUESTIONS

Each multiple-choice question on FP Canada certification exams is linked to the most relevant competency statement from the *FP Canada Standards Council Competency Profile*. The questions included in this selection include their assigned competency statement.

2.224 - Considers potential estate planning strategies

Q1. Kathleen wishes to leave a sum of money to each of her minor grandchildren upon her death. She wants the investment income to be used to support them until they finish their education and the capital distributed to each of them when they turn age of 30. Kathleen should leave the money to:

a) each of her children to be invested on behalf of the grandchildren.
b) each of her grandchildren directly.
c) testamentary trusts established for each of her grandchildren as beneficiaries.
d) inter vivos trusts established for each of her grandchildren as beneficiaries.

1.113 – Collects information to establish client's current and projected tax position

Q2. Selena's income for the current year is made up of the following: $12,000 child support payments as mandated by her recent separation agreement, $3,500 in royalties from a video game production, $19,000 in employment income and $8,000 in workers' compensation payments. What is Selena's taxable income?

a) $22,500
b) $30,500
c) $34,500
d) $39,000

2.113 - Assesses risk exposure against existing risk management strategies

Q3. Bill, age 30, is currently earning $55,000 per year net of tax. For estate planning purposes, he wants to ensure that his family maintains this level of income until his expected retirement at age 55. Assuming no other financial resources and no additional income, an annual after-tax return of 3%, and a payment is made at the beginning of each annual period, how much life insurance would Bill need now to meet this income requirement?

a) $ 957,723
b) $ 968,933
c) $ 986,455
d) $1,375,000

2.210 – Considers potential risk management strategies

Q4. Corey purchased a cottage 30 years ago for $2,000 and it is now worth $100,000. He wishes to leave it to his daughter but is concerned about the capital gains tax payable in the event of his death. If Corey were to use life insurance to fund this liability, which of the following products would be most suitable?

1. whole life insurance
2. 10-year renewable term
3. term-to-100
4. term-to-65

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.114 – Identifies tax implications of assets and liabilities

Q5. Bill, a widower, and Sam, his adult son, own a cottage together as tenants-in-common. The cottage property has appreciated in value over the years. Bill and Sam also own their own principal residences. On Bill's death:

1. Sam will be taxed on the capital gain accrued on his share of the cottage property.
2. Sam will assume ownership of Bill's share of the cottage property based on current FMV.
3. A capital gain may be reported on Bill's terminal return on his share of the cottage property.
4. A principal residence exemption may be claimed on Bill's terminal return on his share of the cottage property.

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 4 only
d) 3 and 4 only

1.109 – Collects information regarding client's existing insurance coverage

Q6. For the last 12 years Alex, age 40, has had a five-year renewable and convertible term life insurance policy for which he pays a monthly premium at preferred rates. Last week, Alex suffered a serious heart attack but is now recovering. With this current coverage, Alex will:

1. sees a premium increase in three years time.
2. lose his preferred pricing on the policy's renewal.
3. need to provide evidence of insurability to renew this policy.
4. be able to convert to a permanent policy without a health assessment.

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.114 – Identifies tax implications of assets and liabilities

Q7. Jared plans to leave his life insurance and his home to his second wife, Kathy, and his RRSPs to his married adult children from his first marriage. When Jared dies:

a) the RRSP proceeds will be included as income on his terminal return.
b) the RRSP proceeds can be declared as income of the estate.
c) his children must declare the RRSPs as income on their tax returns.
d) his children can roll the RRSPs into their own RRSPs.

1.113 – Collects information to establish client's current and projected tax position

Q8. Leo, age 70, contributed $20,000 to a spousal RRSP last year and the year prior. His wife Anne turned 69 last year and transferred the spousal RRSP to a RRIF at the end of the year. The total value of the RRIF was $100,000 as of January 1 of this year. If Anne withdraws $20,000 from her RRIF this year:

a) $4,762 will be taxable in Leo's hands.
b) $4,762 will be taxable in Anne's hands.
c) $20,000 will be taxable in Leo's hands.
d) $20,000 will be taxable in Anne's hands.

2.214 – Considers potential tax planning strategies

Q9. Rudy's private company has sold some of its capital property and has realized a substantial gain. If he takes out the non-taxable portion of the gain, he should declare the amount as:

a) a capital dividend.
b) salary or bonus.
c) a non-eligible dividend.
d) a capital gain.

1.112 – Identifies current and potential financial obligations

Q10. Cliff, age 58, is single with no children. Twelve years ago, he divorced Tina and their home was sold then with the proceeds split between them. Since his divorce, Cliff has rented an apartment in the city. Under their agreement, Cliff is required to pay spousal support of $1,000 per month for Tina's lifetime. Shortly after the divorce, Cliff executed a new will that leaves everything to his brother Tomas. Cliff's assets include a $75,000 RRSP and a shared ownership in a cottage where he spends five months of the year. The cottage, which is held in joint name with Tomas, has appreciated in value by $200,000 since Cliff and his brother purchased it ten years ago. This year Cliff retired and converted his defined contribution pension plan to a $2,400 per month annuity. He selected a joint life payment with a 50% survivor benefit and Tina as the named beneficiary. If Cliff dies tomorrow, which of the following presents the most significant financial obligation?

a) spousal support payments
b) capital gains tax on the cottage
c) income tax on his registered proceeds
d) a dependent claim by Tina under provincial laws

1.209 – Determines client's risk management experience, attitudes, biases, and objectives

Q11. Hailey, a 52-year-old professional accountant with an established practice, is concerned about the loss of earned income in the event of a personal disability. Which combination of the following disability policy features is most appropriate for Hailey?

1. any occupation definition
2. partial disability rider
3. future earnings protection option
4. presumptive disability provision

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 4 only
d) 3 and 4 only

2.106 – Determines characteristics of assets and investment holdings

Q12. Thierry purchased a bond with a face amount of $1,000 on November 1 at a price of $105.75. The bond pays a semi-annual interest amount of $30 on April 30 and October 31 and has eight years remaining to maturity. What will Thierry's annual rate of return be if he holds it to maturity?

a) 5.12%
b) 5.42%
c) 5.67%
d) 6.00%

1.109 – Collects information regarding client's existing insurance coverage

Q13. Charles, a CFP professional, is preparing a life insurance needs analysis for his new clients Bill and Sonya. In preparing this needs analysis, which of the following details concerning their current policies will he need to know?

1. face amount
2. premium costs
3. beneficiary designations
4. CSVs of whole life policies

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 4 only
d) 3 and 4 only

1.212 – Determines client's taxation experience, attitudes, biases and objectives

Q14. Jason owns a business with over $200,000 of annual taxable income and wants to reduce his overall tax burden. He hired his wife to perform basic bookkeeping work for four hours a week at an annual salary of $75,000, which he deducts as a business expense. Which activity best describes Jason's actions?

a) Tax avoidance
b) Tax evasion
c) Tax minimization
d) Tax planning

3.104 - Formulates investment planning strategies

Q15. Kevin, a CFP professional, is licensed to sell securities. Based on the investment objectives of his client Ray, Kevin recently recommended the purchase of XYZ Co. shares. Unfortunately, the value of the shares dropped just days after the purchase. Another of Kevin's clients, a senior executive with XYZ Co., advised Kevin that strong earnings results would be released next week. Ray has called for an update on this investment. Kevin should tell Ray that the shares have dropped in value, and:

a) they are expected to rebound in anticipation of strong earnings results.
b) he should hold these shares and write covered calls to hedge his position.
c) he should use this decline to purchase more shares in anticipation of strong earnings results.
d) he should hold these shares and ride out the market fluctuations.

2.119 – Calculates financial projections in the event of death

Q16. Isabel, a widow, died in October. Her assets included a $100,000 Government of Canada bond that she bought eight years ago for its face value. It bears an interest rate of 4.25%, payable semi-annually in May and November. If average bond yields are currently 2.5%, what must be included on her final income tax return?

1. a capital loss
2. a capital gain
3. accrued interest to her date of death
4. all bond interest paid or payable in the calendar year of her death

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

2.117 – Calculates financial projections based on current position

Q17. Eric is a member of a defined contribution RPP. Each year he contributes 8% of his $70,000 salary to his RPP and his employer matches 50% of his contribution. Eric's RRSP is worth $40,000 and is currently earning 5%. Eric has always made the maximum deductible RRSP contribution each January for that year. Assuming all these factors remain unchanged, what will be the value of his RRSP in 20 years time?

a) $251,953
b) $394,167
c) $446,381
d) $543,594

3.105 – Recommends optimal investment planning strategies

Q18. Grant is starting to do some retirement and estate planning. He owns all 1,000 common shares of his $2 million company. Grant expects the company will continue to grow in value in the years to come and would like his children to benefit from this possible future growth. At the same time, Grant requires an income from the business and still wants to maintain legal control. When he is ready to retire, his children can take control of the company. Given these objectives, Grant should exchange his common shares for 1,000:

a) voting preferred shares retractable at $2 million and issue 500 common shares with nominal value to his children.
b) voting preferred shares with no par value and issue 500 common shares with a value of $2 million to his children.
c) non-voting preferred shares redeemable at $2 million and issue 500 common shares with nominal value to his children.
d) voting convertible preferred shares and issue 500 common shares with $2 million value to his children.

2.119 – Calculates financial projections in the event of death

Q19. Earl, a single man of 60, passed away on January 1. At his death, his assets included: an RRSP with a market value of $250,000 (ACB of $150,000), a $100,000 life insurance policy and an equity fund portfolio with a market value of $112,000 (ACB of $99,000). What is the taxable income on Earl's terminal return?

a) $113,000
b) $156,500
c) $256,500
d) $356,500

2.114 – Determines tax impact of relevant transactions and events

Q20. Three years ago, Natalie purchased an apartment building complex for $500,000 on leased land. At the same time, she acquired some maintenance equipment costing $20,000. Natalie did not claim any CCA in the first year of ownership but maximized her CCA for years two and three. CCA rates are 5% for the apartment building and 20% for the maintenance equipment and they are the only assets in their classes. What are the tax implications if Natalie sells the maintenance equipment for $10,000 and her apartment building complex for $510,000?

1. a terminal loss of $2,800 on the equipment sale
2. a net capital loss of $5,000 on the equipment sale
3. a taxable capital gain of $5,000 on the building sale
4. a recapture of $50,000 on the building sale

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.104 – Collects information regarding client's assets and investment holdings

Q21. When calculating the value of a business, which of the following would be excluded as a factor in the evaluation?

a) Sales growth
b) Earnings history
c) Level of debt
d) Cost of fixed assets

1.113 – Collects information to establish client's current and projected tax position

Q22. Nina wants to leave $100,000 to her favourite registered charity when she dies. If her net income in the year of her death is $80,000, how much of this donation will be eligible for the charitable donation tax credit on her final income tax return?

a) $60,000
b) $75,000
c) $80,000
d) $100,000

2.114 – Determines tax impact of relevant transactions and events

Q23. Lynda operates a profitable business as a sole proprietor. The business sells a depreciable asset (the only asset in its class) this year for $12,000. The asset was purchased for $10,000 and had an undepreciated capital cost of $7,000. How much will Lynda's net income for tax purposes increase as a result of this sale?

a) $2,000
b) $2,500
c) $4,000
d) $5,000

1.006 – Identifies material changes in client's personal and financial situation

Q24. Rick and Karen have two young children and are in the process of finalizing their divorce. They have both had demanding full-time jobs since they married. On the birth of their first child, they hired a nanny to help with childcare. Rick has agreed to pay monthly child support and Karen has assumed a mortgage to purchase Rick's half of the family home. During their marriage, their net worth grew to include a non-registered equity portfolio, a cottage, both of which have accrued gains, and RRSPs, which will be divided between them. In the upcoming months, which of the following will present the most significant financial change for Karen? An increase in her:

a) monthly expenses
b) marginal tax rate
c) child care costs
d) capital gains tax owing

1.114 – Identifies tax implications of assets and liabilities

Q25. Jeannette, age 34, and her spouse, Francois, have two young children. Jeannette has a self-directed RRSP with her estate named as beneficiary, and a group RRSP with her mother, Louise, named as beneficiary. She also has a non-registered investment account, in her name, with an accrued gain. Jeanette and Francois opened a family RESP three years ago and have contributed to it each year. Jeannette's will leave her self-directed RRSP to her children, and the balance of her estate to Francois. If Jeannette dies tomorrow, and assuming all available tax elections are made, which of the following values will be taxable on her final tax return?

a) the self-directed RRSP
b) the group RRSP
c) the accumulated income in the RESP
d) half of the accrued gain in her investment account

1.215 – Determines client’s retirement objectives

Q26. Lydia, age 63, is a vested member of her employer’s RPP which will provide a fully indexed benefit based on final earnings. Lydia has just accepted an early retirement package that included a retiring allowance that she transferred to her RRSP. Her $100,000 RRSP now holds $20,000 in a balanced fund, $40,000 in a dividend fund and $40,000 in a global equity fund. Based on these holdings, what is Lydia’s primary retirement objective for her RRSP? To:

a) benefit from a balanced asset allocation.
b) allow continued growth for her registered assets.
c) earn tax-efficient investment income within the plan.
d) ensure capital preservation for future income stream.

2.114 – Determines tax impact of relevant transactions and events

Q27. Elizabeth was divorced last December. Pursuant to a court order, she is to receive monthly payments of $1,500 for child support and $1,000 for spousal support. This year she paid $5,000 in legal fees to enforce these payments, which are now current. Based on these amounts, this year Elizabeth will have taxable income of:

a) $7,000
b) $12,000
c) $13,000
d) $18,000

2.120 – Determines constraints to meeting client’s estate planning objectives

Q28. Karen, a CFP professional, is reviewing the group benefit plan statements of her clients, Jim and Sharon. With both of their plans, Karen notices that they have designated each other as beneficiary of their group life insurance coverage. Their wills call for the establishment of a testamentary trust on first death. With this in mind, how should Karen proceed?

a) Indicate to Jim and Sharon that the group life insurance proceeds would be subject to probate.
b) Discuss with Jim and Sharon whether there is adequate funding for the testamentary trusts.
c) Advise the purchase of additional personal life insurance coverage with a spousal beneficiary designation for both of them.
d) Suggest the establishment of an inter vivos trust.

2.115 – Calculates current and projected tax liabilities

Q29. Several years ago, Joshua purchased 200 shares of BCorp, a large cap publicly traded Canadian bank, for $60 per share. This year he has received eligible dividend payments of $3 per share. Joshua just sold 100 shares of BCorp for $80 per share. Based on Joshua's 26% federal tax rate, approximately how much federal tax will Joshua pay on these sources of investment income?

a) $351
b) $385
c) $416
d) $475

2.121 – Assesses the financial planning implications of the legal measures the client has in place

Q30. Ted and Aline, both age 66, divorced last year after 40 years of marriage. Ted was ordered to pay spousal support of $1,500 per month for Aline's lifetime. With the divorce, Ted's CPP credits were split with Aline, and his previous monthly benefit of $845 was reduced to $422.50. He has no life insurance, and his current monthly income consists of his CPP and OAS retirement income and $3,000 RPP income with a two-thirds survivor income option that remains in effect for Aline subsequent to the divorce. Ted also has a self-directed RRSP worth $200,000, with the estate named as beneficiary. In reviewing Ted's estate planning affairs:

a) he should purchase life insurance designating Aline as the irrevocable beneficiary.
b) CPP survivor income benefits will be payable to Aline on his death.
c) the current status of his plans will cover the estate obligations to Aline.
d) he will need to designate Aline as the beneficiary of his self-directed RRSP.

2.110 – Assesses whether asset allocation is consistent with client's constraints, required rate of return, investment risk capacity, need, tolerance, and composure

Q31. Janet is retired with a fixed income portfolio and requires this investment income to support her needs. While meeting with Pierre, a CFP professional, she comments that interest rates have fallen significantly over the past decade. She recalls a considerable drop in income when she reinvested funds in a low interest rate environment. To address this concern, which of the following strategies would be most appropriate for Pierre to recommend? As the bonds mature, invest in a portfolio of:

a) treasury bills.
b) bonds with short-term maturities.
c) bonds with laddered maturities.
d) bonds with long-term maturities.

1.116 – Collects information regarding client's potential sources of retirement income

Q32. Rita, who turned 56 today, joined her employer exactly 26 years ago and has been a member of the company pension plan since that time. The plan provides for early retirement with an unreduced pension on satisfying a qualifying factor of 85. Employees may retire as early as age 55, but pensions are reduced if the qualifying factor is not met. What is the earliest point at which Rita can retire and receive an unreduced pension?

a) today
b) in 18 months
c) in 24 months
d) in 36 months

3.117 – Recommends optimal estate planning strategies

Q33. Greg currently owns all of the common shares of his company, valued at $1 million. He expects that the company will continue to grow over the years and plans on running it until he dies. Greg wants his adult children to benefit from the company's projected growth and assume ownership of it on his death and is considering an estate freeze. Which of the following transactions are appropriate to meet his objective? Greg should:

1. exchange his common shares for 10,000 voting preferred shares retractable at $100 per share.
2. exchange his common shares for 1,000 convertible preferred shares with no par value.
3. issue 1,000 new common shares with a value of $500 per share to his children.
4. issue 1,000 new common shares with a value of $1 per share to his children.

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.206 – Determines client's investment constraints

Q34. Ben, age 55, would like to review his investment holdings in his RRSP. Which of the following would be the most relevant when evaluating his RRSP investments?

1. his investment experience
2. his risk tolerance
3. his time frame for retirement
4. his current cash flow requirements

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.106 – Determines client's current asset allocation

Q35. Jill holds non-registered assets of $10,000 in a savings account, $5,000 in a two-year GIC, and $25,000 in a Canadian equity fund. Her RRSP investments include $10,000 in a mortgage fund, $20,000 in a bond fund, and $30,000 in a foreign equity fund. Based on Jill's current asset allocation:

1. fixed-income assets account for 35% of her total assets.
2. tax efficiency between non-registered and registered assets has been maximized.
3. current holdings provide a hedge against inflation.
4. income appears to be her primary investment objective.

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

1.107 – Identifies current and projected asset and investment cash flows

Q36. Rowena's margin account holds $100,000 in strip bonds due in four years with a 5% yield to maturity, and 10,000 shares of BankCo (FMV $30 per share) with a 3% current dividend yield. The margin balance owing is $75,000 which carries an annual rate of 4%. Based on the current values and ignoring taxes, what net income amount will be available in her margin account for reinvestment this year?

a) $6,000
b) $9,000
c) $11,000
d) $14,000

2.226 – Evaluates advantages and disadvantages of each estate planning strategy

Q37. Jules, the owner, operator and sole director of a successful trucking company, is considering the use of an estate freeze. He will take back voting retractable preferred shares, and a trust will hold non-voting common shares on behalf of his wife and three minor children. With the implementation of an estate freeze:

a) Jules and the trustee will share the management of the company's operations.
b) the retraction price of the preferred shares will increase with the company's FMV.
c) trust income paid to his wife and children will be taxed at their graduated tax rates.
d) Jules will decide the annual dividend payments on the preferred and common shares.

1.213 – Determines client's tax knowledge

Q38. This year Steve sold a parcel of vacant land (ACB $1.2 million) for $2 million. Under the accepted sale offer, Steve received half of the proceeds this year, with the balance to be paid next year. Steve, who is in the top marginal tax bracket, has not claimed any of his capital gains exemption. Which of the following would indicate that Steve has maximized available tax planning options? This year Steve reports a taxable capital gain of:

a) $ 0
b) $ 200,000
c) $ 400,000
d) $ 800,000

1.218 - Identifies family dynamics and business relationships that could impact estate planning strategies and objectives

Q39. Fernando started BricksBuild Inc. 30 years ago and owns 95% of the outstanding shares (FMV $5 million). Cindy, a long-time employee, owns the other 5% interest in the company. Fernando's two adult sons work in the business with him, while his daughter has no interest in working in the family business. Two years ago, Fernando finalized a divorce from his wife Sarah which left him "asset rich but cash poor", as he pays on-going spousal support each month. Fernando is updating his estate plan and plans to leave 30% of the company shares to each of his children and a further 5% to Cindy. What issues are most relevant for Fernando in implementing his estate plan?

1. Sarah's entitlement to 50% of Fernando's shares of the company
2. the children's concerns about Fernando's estate structure
3. the consequences of a transfer of shares
4. Cindy's holding the balance of power in the company

a) 1 and 2 only
b) 1 and 4 only
c) 2 and 3 only
d) 3 and 4 only

1.103 - Prepares statements of client's net worth and cash flow

Q40. Brent, a CFP professional, is preparing a budget for his new self-employed client Alison. Which of the following transactions would he list as a non-discretionary expense? Alison:

a) files and pays her GST/HST on a quarterly basis.
b) sets aside $100 each month to fund her nephew's RESP.
c) pays $7,500 on her mortgage principal as permitted under the annual prepayment option.
d) deposits the maximum amount allowed into the investment account of her universal life policy.

2.114 - Determines tax impact of relevant transactions and events

Q41. In December 1991, Dwight purchased a whole life insurance policy with a death benefit of $500,000. The policy has a cash surrender value of $78,000. Since purchase, Dwight has received dividends of $7,000 that he has elected to leave and accumulate in the policy. The ACB of the policy is $42,000. If Dwight surrenders the policy, what will be the tax impact?

a) $14,500 taxable capital gain
b) $18,000 taxable capital gain
c) $36,000 taxable income
d) $43,000 taxable income

1.004 - Identifies client's legal issues that affect the financial plan

Q42. Samuel appointed his son Brian, age 45, as his power of attorney for property. Samuel recently passed away, leaving a sizeable estate which includes a number of investment accounts, real estate and registered plans. His will names his wife Edna, age 78, as his sole executor and calls for an outright distribution to her. Edna is unsure if she can handle this role and the ongoing management of these assets. Which of the following options are available to her? Edna can:

1. have Brian manage Samuel's property under the power of attorney.
2. establish a testamentary spousal trust to hold the assets for her.
3. hire professional advisors to administer the estate.
4. renounce her appointment as executor.

a) 1 and 2 only
b) 1 and 4 only
c) 2 and 3 only
d) 3 and 4 only

1.204 – Determines client's investment experience, attitudes, biases and objectives

Q43. Adam has been working with a CFP professional over the past few years and has accumulated the following assets over this period: $5,000 in a savings account; $25,000 in a money market fund; $40,000 in a Canadian mortgage fund; and $30,000 in retractable preferred BankCo shares. What would appear to be the primary investment objective of the portfolio they have built?

a) asset appreciation
b) tax minimization
c) capital preservation
d) inflation hedge

1.204 – Determines client's investment experience, attitudes, biases and objectives

Q44. Sophie has a large cash balance in her self-directed RRSP that she wants to invest. Which of the following factors is least likely to influence her attitude about various RRSP-eligible investment vehicles?

a) her age
b) her marginal tax rate
c) her non-registered holdings
d) her past investment experience

2.114 – Determines tax impact of relevant transactions and events

Q45. Joan, a sole proprietor, provides taxable consulting services to several clients whom she visits on a regular basis. Her net business income was $40,000 for each of the last two years, resulting in tax owing of approximately $6,000 for each of those years. Joan knows her net income will be higher this year. Based on these details, Joan will be:

1. required to remit EI premiums.
2. able to deduct her total CPP premiums for tax purposes.
3. required to be registered for the GST/HST.
4. instructed to make quarterly income tax instalments.

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 4 only
d) 3 and 4 only

1.003 - Identifies information and documentation required to prepare the financial plan

Q46. Scott, age 33 and single, is member of his employer's defined benefit pension plan, but has not yet opened a RRSP. He has engaged the services of Judith, a CFP professional, to open a RRSP and advise on its investment. Scott has not invested previously but has indicated that he has no problem taking risks and is eager to start investing right away. He is able to open his RRSP with $10,000 now and has $500 monthly surplus cash flow that he would like to contribute each month thereafter. Which combination of the following is the most appropriate for Judith to do next?

1. Use contributions to purchase equity growth fund units.
2. Obtain a copy of Scott's most recent Notice of Assessment.
3. Suggest Scott use the resulting tax savings to fund a TFSA.
4. Determine Scott's investment objectives and risk tolerance.

a) 1 and 2 only
b) 1 and 3 only
c) 2 and 4 only
d) 3 and 4 only

3.001 - Prioritizes recommendations from the financial planning areas to optimize the client's situation

Q47. Quinn, age 40, is married with two young children. He has been working at Factory Co. for the past 10 years and was just advised that his job will be terminated in one month. Factory Co. has offered Quinn a severance package consisting of a lump sum payment equal to one year's salary that will be paid next month. His group benefits, including life and disability insurance, will cease on termination and the commuted value of his defined benefit pension will be transferred out in three months' time. Which of the following actions is the most immediate priority for Quinn?

a) Obtain and complete the application for EI benefits.
b) Meet with his investment advisor to open a LIRA.
c) Meet with his insurance advisor to discuss personal insurance coverage.
d) Advise Factory Co. on the rollover amount to transfer to his RRSP.

1.102 - Collects information regarding client's current and projected cash flow

Q48. Leanne and Raymond have two young children. Their family net income is $30,000 and their cash flow is tight. Last month Leanne's parents gave them $2,000 that they contributed to a RESP for their children. Their other assets include compound interest GICs due in two years and Raymond's membership in his employer's DPSP. Leanne is preparing a projected cash flow summary to assist her in budgeting for her family's expenditures. Their current cash flow will be affected by:

a) payment of GIC interest.
b) receipt of the CESG payment.
c) payment of DPSP contributions.
d) receipt of the GST credit.

1.290 - Determines client's risk management experience, attitudes, biases, and objectives

Q49. Charlie and Deirdre Maxwell have engaged the services of Alain, a CFP professional, to prepare a financial plan. Alain has completed the collection of the Maxwells' financial information and is in the process of reviewing their risk management needs. The Maxwells have indicated that they are concerned about the financial impact that their premature deaths might have on their two young children. Which of the following is the most appropriate topic for Alain to pursue next with the Maxwells?

a) strategies to fund their estates
b) referral to a life insurance agent
c) the liquidity of their current assets
d) the financial needs of their children

1.201 - Determines client's experience, attitudes, biases, and objectives regarding saving and spending

Q50. Ken, a CFP professional, met with his new client Barb, age 73. Barb is retired and her pension income consists of CPP and OAS benefits. In reviewing her documents, which of the following information could indicate that Barb has had difficulty saving money?

1. an inability to claim the age amount tax credit
2. an inability to claim the pension income tax credit
3. the requirement to repay a portion of her OAS benefits
4. the receipt of annuity payments from a reverse mortgage

a) 1 and 3 only
b) 1 and 4 only
c) 2 and 3 only
d) 2 and 4 only

3.117 - Recommends optimal estate planning strategies

Q51. Gloria and Albert, both in their late sixties, recently got married. Gloria is wealthy and has a large portfolio of investments and real estate, with significant accrued gains. On her death, Gloria wants to ensure a comfortable lifestyle for Albert and she also wants to protect the balance of her children's inheritance in the event that Albert remarries. In order to achieve these objectives and minimize tax on her death, Gloria should leave her estate to Albert:

a) and the children in trust, with access to income and capital available to all beneficiaries on her death.
b) in trust, and in the event of his remarriage, trust assets would be distributed to her children.
c) in trust, with access to only trust income for him, and on his death, trust capital would be distributed to her children.
d) in trust, with access to only trust income for him and, if required, for her children, and on his death, trust capital would be distributed to her children.

1.106 - Determines client's current asset allocation

Q52. Joel has worked at DirectCo, a public company, for the last five years. He is a member of the company's DPSP and participates in the group RRSP. His $10,000 DPSP holds equity funds and his $40,000 group RRSP is invested in mortgage backed securities. Through DirectCo's employee share purchase plan, Joel has purchased 3,000 shares (ACB $10,000) that are currently trading at $10 per share. Joel has $5,000 in a savings account, $5,000 in a 30-day term deposit and $10,000 in a money market fund. What is Joel's current asset allocation?

a) 5% cash, 15% fixed income, 80% equities
b) 10% cash, 50% fixed income, 40% equities
c) 20% cash, 40% fixed income, 40% equities
d) 25% cash, 50% fixed income, 25% equities

ANSWERS

Q1.

a) is incorrect. If she leaves her money to each of her children, the children would have control of these funds, which does not guarantee that the funds would be used for the benefit of the grandchildren. This alternative does not meet her objectives.

b) is incorrect. Kathleen wants the capital to be distributed to her grandchildren when they reach age 30. An outright distribution to them on her death would result in a capital distribution once they reached the age of majority.

c) is correct. Testamentary trusts would ensure that funds are used for the benefit of her grandchildren and provide for a distribution when they each turn age 30. This alternative would best meet her objectives.

d) is incorrect. An inter vivos trust is established before she dies. Kathleen wants to provide the income to her grandchildren on her death.

Q2.

a) is correct. Selena will be taxed on her employment income of $19,000 and the royalties of $3,500 to total $22,500 employment income.

b) is incorrect. In addition to Selena's $22,500 in employment and royalty income, this amount includes the $8,000 workers' compensation payments, which are not included in taxable income.

c) is incorrect. In addition to Selena's $22,500 in employment and royalty income, this amount includes the $12,000 child support payments, which are not included in her taxable income based on her recent agreement.

d) is incorrect. In addition to Selena's $19,000 employment income, this amount includes the $8,000 workers' compensation payments, and the $12,000 child support payments, neither of which are included in taxable income.

Q3.

a) is incorrect. The question states that an annual payment will be made at the beginning of the period, therefore the calculation should be done using begin mode. This amount is calculated using end mode.

b) is incorrect. The question specifies that a payment is made at the beginning of each year, so annual amounts should be used. This amount is calculated using a monthly interval where PMT = $4,583.33 ($55,000 divided by 12), N = 300 (25 years times 12), and I = 0.25% (3% divided by 12).

c) is correct. With an annual payment made at the beginning of each year, begin mode should be used. The keystrokes for these calculations are: FV = 0, PMT = $55,000, I = 3%, N = 25 (55 less 30), solve for PV = $986,454.82.

d) is incorrect. This amount is the annual payment amount of $55,000 times 25 years. This calculation has not factored in the interest income earned on this capital over the years.

Q4.

1. is correct. A whole life policy will provide permanent insurance to cover this future tax liability. The policy must be in force when death occurs, regardless of when that might be.

2. is incorrect. A 10-year renewable term policy can only be renewed up to a certain age and does not provide the permanent coverage which is required to fund a future liability.

3. is correct. A term-to-100 policy will provide the long-term coverage required to fund taxes on death.

4. is incorrect. A term-to-65 policy does not provide a long-term solution. If Corey dies after age 65, there would be no death benefit payment from this policy to fund the tax liability.

Q5.

1. is incorrect. There are no tax implications for Sam on Bill's death. Sam will be taxed on the

gain of his share of the cottage property when he disposes of it.

2. is incorrect. With the cottage registered as tenants-in-common, Bill's share of the cottage property will be included in his estate assets on his death, and will not pass directly to Sam.

3. is correct. Bill's share of the cottage property will pass to his estate. A deemed disposition on his death can result in a capital gain claimed on his terminal return.

4. is correct. A principal residence exemption may be claimed to shelter some or all of the cottage's capital gain.

Q6.

a) is incorrect. Option 1 is correct. Premiums increase on the term renewal date which will be in three years time. Option 3 is incorrect. With the renewable feature, the policy can remain in place without a medical.

b) is correct. Option 1 is correct. Premiums increase on the term renewal date which will be in three years time. Option 4 is correct. With the conversion feature, the policy can usually be converted to a permanent insurance policy with current life insurer at time of conversion with no medical required.

c) is incorrect. Option 2 is incorrect. The premium amount is based on the original schedule of premiums set out at the time of the application. Option 3 is incorrect. With the renewable feature, the policy can remain in place without a medical.

d) is incorrect. Option 2 is incorrect. The premium amount is based on the original schedule of premiums set out at the time of the application. Option 4 is correct. With the conversion feature, the policy can usually be converted to a permanent insurance policy with current life insurer at time of conversion with no medical required.

Q7.

a) is correct. The RRSP proceeds are not passing to a surviving spouse or to minor or dependent children, so the proceeds must be declared on Jared's final income tax return.

b) is incorrect. The RRSP proceeds are not declared as estate income, but as the deceased's income on the terminal return.

c) is incorrect. When RRSP proceeds pass to adult children, the value is taxed on the deceased parent's terminal return, and not on the children's return.

d) is incorrect. If Jared's adult children were dependant due to physical/mental infirmities, RRSP amounts could be rolled over for continued tax deferral. Otherwise, these RRSP proceeds are taxable on Jared's terminal return.

Q8.

a) is incorrect. Based on Anne's RRIF value of $100,000, the annual required minimum payment will be $4,762 ($100,000divided by 21 (90-69)). The required minimum payment amount of $4,762 is taxable to the annuitant Anne. The excess amount of $15,238 would be taxable to Leo given his recent contributions to the spousal RRSP.

b) is correct. Based on Anne's RRIF value of $100,000, the annual required minimum payment will be $4,762 ($100,000 divided by 21 (90-69)). The required minimum payment amount of $4,762 is taxable to the annuitant Anne.

c) is incorrect. Only a portion of the payment will be taxable in Leo's hands. The annual required minimum payment amount of $4,762 ($100,000 divided by 21 (90-69)) is taxable to the annuitant Anne. The excess amount of $15,238 would be taxable to Leo given his recent contributions to the spousal RRSP.

d) is incorrect. The annual required minimum payment amount of $4,762 ($100,000 divided by 21 (90-69)) is taxable to the annuitant Anne. The excess amount of $15,238 would be taxable to Leo given his recent contributions to the spousal RRSP.

Q9.

a) is correct. The untaxed portion of a capital gain realized by a corporation can be paid out as a capital dividend to the shareholder(s) on a tax-free basis.

b) is incorrect. A payment of salary or bonus is a taxable income item for him. Based on the nature of the payment, he can receive a tax-free capital dividend.

c) is incorrect. Dividends are paid with the company's after-tax income. This payment is non-taxable income and can be received as a tax-free dividend by him.

d) is incorrect. It is the company that realized the capital gain and not Rudy. The untaxed portion of the capital gain realized by the corporation can be paid out to him as a capital dividend on a tax-free basis.

Q10.

a) is incorrect. With Tina as the beneficiary of his pension payments, she will receive $1,200 per month for her lifetime.

b) is incorrect. Cliff can claim the cottage as his principal residence and avoid capital gains tax on this property.

c) is correct. With no spousal rollover option available on his RRSP, the plan value would be taxable on his terminal return.

d) is incorrect. Cliff is required to maintain spousal support for her lifetime, which he has done with the joint survivor pension option. She would not be considered a dependant of his estate since spousal support payments will continue to be funded.

Q11.

1. is incorrect. An “any occupation” definition would mean that Hailey would not receive disability benefits if she was reemployed in any type of gainful employment. Given her profession, she should consider an "own occupation" definition.

2. is correct. A partial disability rider calls for the payment of a portion of the benefit for a specified period if loss of time or duties occurs. Receipt of the partial benefit payment is not dependant on loss of income.

3. is incorrect. This option would be appropriate for a new business where growth in earnings is anticipated but would not be the most appropriate policy feature for an established practice.

4. is correct. This provision provides full benefits paid for the contractual benefit period if any of the qualifying conditions occurs, such as loss of sight, speech, or hearing. In the event that one of the conditions occurs, benefits would be paid whether or not there was a resulting loss of income.

Q12.

a) is correct. The purchase price was $1,057.50 based on a price of $105.75. Using key strokes, Mode=end, PV=1,057.50, FV=1,000, PMT=30, N=16 (2 times 8), solve for I=2.56 times 2=5.12%.

b) is incorrect. This calculation is done in begin mode, however, the interest would be payable at the end of the six-month term in April. Also, an annual payment amount of $60 for the 8 remaining years is used. Mode=begin, PV = 1,057.50, FV=1,000, PMT = 60, N=8, solve for I=5.42%.

c) is incorrect. This calculation is the yield based on the annual payment of $60 on $1,057.50 cost amount. $60 divided by $1,057.50 = 5.67%. The capital loss on maturity has not been factored into this calculation. Also, an annual payment amount has been used, but interest is paid semi-annually.

d) is incorrect. This return is based on the annual interest income of $60 divided by the face amount of $1,000 = 6%. The return calculation is based on the investment cost, and the income is received on a semi-annual basis.

Q13.

1. is correct. The policies’ face amount needs to be known to determine the amount of proceeds that would be payable on death.

2. is incorrect. Although relevant to the cash flow statement to determine if the policy is affordable, premium amounts will not impact the amount of coverage that they need to have to meet their risk management objectives.

3. is correct. Beneficiary designations need to be confirmed to determine the recipient(s) of the life insurance proceeds. Life insurance with the estate named as beneficiary would not be readily available to the surviving spouse to cover ongoing cash flow needs or other uses, such as debt reduction.

4. is incorrect. The cash surrender value is an asset that appears on their net worth statement. However, the cash surrender value is not paid out on death, the policy’s face amount is. The CSVs would not be required information in preparing a needs analysis.

Q14.

a) is incorrect. Tax avoidance involves using the tax system in a way in which it was not intended. In such a case, one may run into the general anti-avoidance rule (GAAR) which addresses transactions done for the sole purpose of tax reduction rather than for legitimate business or personal reasons.

b) is correct. His actions are an example of tax evasion. The salary must be "reasonable" in light of the services performed for the business. Clearly, an annual salary of $75,000 for part-time bookkeeping work is unreasonable. He is evading tax with the business deduction of a $75,000 salary expense.

c) is incorrect. Tax minimization is a legal activity and can be done to reduce taxes. For example, a capital gains reserve can be claimed to result in tax minimization. However, Jason's activity is not minimizing tax, but rather evading tax by claiming an "unreasonable" business deduction of $75,000.

d) is incorrect. Tax planning is a legitimate activity where one is entitled to arrange one's affairs, within the limits of the law, so that a minimum amount of tax is paid. The payment of this unreasonable salary and its deduction as a business expense are not within Income Tax Act regulations and do not qualify as tax planning.

Q15.

a) is incorrect. The information about strong earnings results came from a company executive and is insider information. The use of insider information is illegal and in breach of the standards of professional responsibility concerning ethical behaviour

b) is incorrect. The sale of covered calls in the face of a rising stock price could result in him losing his shares or closing out his option position at a loss.

c) is incorrect. It is not known if the purchase of further shares would match his investment objectives and risk tolerance. Further, the mention of strong earnings results is from insider information, and the use of insider information is illegal and shows unethical behaviour.

d) is correct. These shares meet his investment objectives so he should continue to hold them. No insider information was given out with this recommendation.

Q16.

1. is incorrect. With a drop in interest rates from 4.25% to 2.5%, Isabel's bond would be trading at a premium and not a discount; therefore, there would not be a capital loss on the deemed disposition of this bond.

2. is correct. With a decrease in interest rates, the price of Isabel's bond would have increased from the purchase price, resulting in an accrued gain. Since she is a widow, there is no possibility of a spousal rollover. Therefore, there would be a deemed disposition of this bond on her death and a capital gain declared on her final return.

3. is correct. Accrued interest earned from the May payment date to the date of her death would be taxable on her final return.

4. is incorrect. Accrued interest earned after her death and interest paid after her death would not be included on Isabel's final return.

Q17.

a) is correct. Eric's RRSP contribution is reduced by his PA amount. His PA amount includes his RPP contribution of $5,600 (8% of $70,000) and his employer's contribution of $2,800 (4% of $70,000), to total $8,400. His annual deductible RRSP contribution is 18% of $70,000, or $12,600 less PA of $8,400 = $4,200. The key stokes are mode = begin, PV = 40,000, PMT = 4,200, I = 5, N = 20, solve for FV = 251,952.77.

b) is incorrect. This calculation uses an RRSP contribution of 7,000, based on a PA amount of $5,600 (8% of $70,000). This $5,600 PA uses only Eric's contribution to the RPP and has ignored the employer contribution. His RRSP room is 18% of $70,000 = $12,600 less $5,600 his RPP contribution = $7,000 RRSP contribution amount. Using key strokes mode = begin, PV = 40,000, PMT = 7,000, I = 5, N = 20, solve for FV = 349,166.67.

c) is incorrect. This calculation uses an annual RRSP contribution amount of $9,800, based on a PA amount of $2,800 (4% of $70,000). This $2,800 PA is based on only the employer's contribution to the RPP and has ignored the employee's contribution amount. His RRSP room is 18% of $70,000 = $12,600 less $2,800 PA = $9,800 RRSP contribution amount. Using key strokes mode = begin, PV = 40,000, PMT = 9,800, I = 5, N = 20, solve for FV = 446,380.58.

d) is incorrect. This calculation uses an annual RRSP contribution of $12,600 (18% of $70,000) and has ignored the PA amount from RPP contributions. Using key strokes mode = begin, PV = 40,000, PMT = 12,600, I = 5, N = 20, solve for FV = 543,594.48.

Q18.

a) is correct. With this strategy, he can convert his common shares to preferred shares and defer any immediate tax liability. With the voting feature, he will maintain control of the company and the $2 million retraction option will provide him with income.

b) is incorrect. With the voting feature, he will maintain control of the company. However, if these shares are not redeemable or retractable, it will be difficult for him to receive the company's worth of $2 million. With this option, it is the children who receive shares worth $2 million, which is not his intent.

c) is incorrect. With the redeemable feature, the company is able to purchase his shares for $2 million, providing him with an income. However, non-voting preferred shares would not provide him the control over the company.

d) is incorrect. The convertible feature would allow him to convert his preferred shares for common shares. However, he just exchanged his common interest for preferred shares. This option would allow him to share in the company's $2 million with his children, but he wants them to benefit from future growth and not the company's current value.

Q19.

a) is incorrect. This amount represents the gain on the RRSP holdings and equity fund portfolio. The gain on the RRSP is $100,000 ($250,000 less $150,000) and the gain on the equity portfolio is $13,000 ($112,000 less $99,000), to total $113,000. However, it is the $250,000 RRSP plan value that is taxable on his death. The taxable capital gain on the equity portfolio is $6,500, half of the $13,000 gross capital gain.

b) is incorrect. This amount includes the life insurance proceeds and 50% of the gain on the RRSP holdings and equity fund portfolio. The gain on the RRSP is $100,000 ($250,000 - $150,000) and the gain on the equity portfolio is $13,000 ($112,000 less $99,000), to total $113,000. 50% of this gain is $56,500 plus $100,000 life insurance = $156,500. However, it is the RRSP plan value that is taxable on his death, and life insurance proceeds are not subject to tax.

c) is correct. On death, the current FMV of his $250,000 RRSP is deemed received and taxable on the terminal return. There would also be a deemed disposition of his equity portfolio. $112,000 FMV less $99,000 ACB = $13,000 gross gain; the taxable portion is $6,500. This amount includes the deemed receipt of the $250,000 RRSP plus the $6,500 taxable capital gain on his equity fund portfolio = $256,500.

d) is incorrect. On death, the current FMV of his $250,000 RRSP is deemed received and taxable on the terminal return. There would also be a deemed disposition of his equity portfolio. $112,000 FMV less $99,000 ACB = $13,000 gross gain; the taxable portion is $6,500. This amount includes $250,000 RRSP plus $6,500 taxable capital gain on the equity portfolio plus $100,000 life insurance proceeds = $356,500. However, life insurance proceeds are not subject to tax.

Q20.

1. is correct. If the maximum CCA is claimed in years 2 and 3 on the maintenance equipment, the CCA taken will be $4,000 in year 2 (20,000 times 20% = 4,000) and $3,200 in year 3 (20,000 less 4,000=16,000 times 20%=3,200) to total $7,200. The undepreciated capital cost of the equipment is $12,800 ($20,000 cost less $7,200 CCA). Sale proceeds of $10,000 less $12,800 UCC = $2,800 terminal loss since there are no other assets in the class.

2. is incorrect. This amount assumes a net capital loss based on $10,000 sale proceeds less $20,000 cost = $10,000 gross capital loss, of which $5,000 is the net capital loss. With a UCC of $12,800 ($20,000 cost less $7,200 UCC), the loss amount is $2,800. Since there are no other assets in this class, the $2,800 is a terminal loss.

3. is correct. The UCC of the building is less than its cost, so there will be a CCA recapture. Sale proceeds of $510,000 less $500,000 cost = 10,000 gross capital gain, of which $5,000 is taxable.

4. is incorrect. This amount assumes CCA of 5% is based on the $500,000 cost amount for both years (5% of $500,000 is $25,000 times 2 years = $50,000). However, CCA is taken from the declining UCC value.

Q21.

a) is incorrect. Often the business valuation can be based on an income multiple based on earnings. The sales growth of a business will impact its earnings. Sales growth is a factor which can be relevant in the valuation of a business.

b) is incorrect. The business' earnings history can indicate the stability of the business income and if income has increased or decreased over the years. A history of earnings is relevant information in an income valuation of a business.

c) is incorrect. The level of debt can indicate if the business is having difficulties and if debt needs to be assumed to cover cash flow needs. Or perhaps, the business is doing well and debt was required to finance expansion plans. The level of debt needs to be known to help determine its net worth since assets minus liabilities equals net worth.

d) is correct. Although the cost of fixed assets may be relevant to the owner, this cost amount does not represent the assets' current fair market value if they were to be sold or appraised. The cost of fixed assets is not a relevant factor in calculating the value of a business.

Q22.

a) is incorrect. This $60,000 amount is 75% of her net income of $80,000. However, in the year of death, charitable contributions claimed can be 100% of net income.

b) is incorrect. This $75,000 amount is 75% of the $100,000 donation she wants to leave to charity. The 75% limit applies to net income for other years, but not the year of death.

c) is correct. Charitable donations eligible for the tax credit are subject to a limit of 75% of net income, except in the year of death and the immediately preceding year, when donations of up to 100% of net income are eligible for the tax credit. This $80,000 amount is 100% of her net income in the year of death.

d) is incorrect. This $100,000 amount is the total desired donation amount. The charitable donation eligible for a tax credit is limited to 100% of her net income in the year of death, or in this case, $80,000.

Q23.

a) is incorrect. This amount is the difference between the sale price of $12,000 and the cost of $10,000. However, on the sale there will be a recapture of capital cost allowance, and half of the gross capital gain will be taxable.

b) is incorrect. This amount assumes the $5,000 difference between the sale proceeds of $12,000 and the undepreciated capital cost allowance of $7,000 is a capital gain, with a taxable portion of $2,500. However, on the sale there will be a recapture of capital cost allowance.

c) is correct. With this sale there is a $3,000 recapture of capital cost allowance ($10,000 cost less $7,000 undepreciated capital cost) which is taxable as income. The gross capital gain of $2,000 ($12,000 sale proceeds less $10,000 cost) results in a taxable capital gain of $1,000. $3,000 CCA recapture plus $1,000 taxable capital gain = $4,000.

d) is incorrect. This amount assumes the $5,000 difference between the sale proceeds of $12,000 and the undepreciated capital cost allowance of $7,000 is all taxable income gain. However, on the sale there will be a recapture of capital cost allowance and a realized capital gain, half of which is taxable.

Q24.

a) is correct. Karen is assuming a mortgage to purchase Rick's share of the home. With the addition of these mortgage payments, Karen's monthly expenses will increase significantly.

b) is incorrect. Karen will receive child support payments from Rick. However, these child support payments will be non-taxable, so the receipt of this income will not impact Karen's tax position and increase her marginal tax rate.

c) is incorrect. The child care costs of the nanny were in place prior to the divorce, so there should be no significant change in these costs.

d) is incorrect. With marriage breakdown, assets can be split between spouses on a tax-free basis to avoid capital gains tax. There will be no tax liability on the division of the portfolio and cottage between Karen and Rick.

Q25.

a) is incorrect. With the estate as beneficiary of the self-directed RRSP, these amounts will be included in her estate and subject to distribution as specified in her will. Her will instructs the self-directed RRSP proceeds to be paid to her young children. With her minor children as beneficiaries, an election can be made to purchase term certain annuities for her children with these RRSP proceeds. With this election, the RRSP proceeds would not be taxable on Jeanette's final return. Annuity payments would be taxable to the children when received.

b) is correct. Jeanette's mother Louise is the designated beneficiary on her group RRSP. There is no rollover provision available for this RRSP distribution since Louise is not her surviving spouse. As such, the full value of the group RRSP would be included on Jeannette's final tax return.

c) is incorrect. The accumulated RESP income would not be a taxable item on her final return. Both Jeanette and Francois are subscribers of the RESP. There is no deemed disposition of this asset and the RESP can continue.

d) is incorrect. Jeanette's will leaves her non-registered assets to her husband Francois. Under the spousal rollover provisions, her investment account can be transferred to Francois at her adjusted cost base, unless the executor elects out of the rollover on Jeannette's final tax return. This would result in no capital gain for her investment account on her final tax return. The accrued gain would be deferred until Francois disposed of her investment holdings.

Q26.

a) is incorrect. Her current RRSP holdings do not reflect a balanced asset allocation with at least 80% in equities.

b) is correct. With this exposure to equities, at least 80% of her holdings can benefit from continued growth.

c) is incorrect. Investment income earned within the RRSP is tax-deferred. The tax-efficiency of dividend income is not an issue with her RRSP assets, unlike dividend income earned on non-registered holdings.

d) is incorrect. Safety of capital is not a feature of these investment holdings.

Q27.

a) is correct. The spousal support paid to Elizabeth is taxable and these legal fees are deductible for her ($12,000 less $5,000 = $7,000).

b) is incorrect. This amount is the spousal support of $12,000 and has ignored the legal fees which are tax deductible.

c) is incorrect. This option is a calculation of child support payments ($1,500 times 12 = $18,000) less legal fees of $5,000 to total $13,000. This is incorrect because child support is not taxable to Elizabeth; however, legal fees are deductible.

d) is incorrect. This amount represents child support payments (12 times $1,500 = $18,000); however, these payments are not taxable, so will not impact Elizabeth's taxable income.

Q28.

a) is incorrect. Since the group life insurance coverage will be paid directly to the beneficiary, and not pass through the estate, it will not be subject to probate.

b) is correct. In order to fund the testamentary trust, assets must be available in the estate. They have named each other as beneficiary of the group life coverage so these proceeds will not form part of the estate. Depending upon the registration and beneficiary designations of their other assets, there may or may not be adequate funding for the testamentary trust.

c) is incorrect. The need for additional life insurance cannot be determined based on the information provided in this question. The issue is the beneficiary designation. Additional coverage with spousal beneficiary designations will not address the possible problem of adequate funding for the testamentary trust. To fund the testamentary trust, the estate should be the named beneficiary on the life insurance policies.

d) is incorrect. The establishment of an inter vivos trust does not address the issue of adequate funding for the testamentary trust. Assets held in an inter vivos trust would not be part of the estate, and therefore, would not be available to fund the testamentary trust.

Q29.

a) is correct. Joshua's taxable eligible dividend income is $3 times 200 shares = $600 grossed up by 38% = $828. The federal dividend tax credit is 15% of $828 or $124.20. Joshua has realized a gross capital gain of $2,000 ($80 less $60 = $20 times 100 shares), resulting in a taxable capital gain portion of $1,000. Taxable investment income is $828 grossed up dividends plus $1,000 taxable capital gain = $1,828. $1,828 income taxed at 26% = $475.28 federal tax less $124.20 federal dividend tax credit = $351.08 federal tax.

b) is incorrect. This amount has based the 15% dividend tax credit on the $600 actual dividend amount and not the grossed up amount of $828 ($600 times 1.38). Joshua's taxable eligible dividend income is $3 times 200 shares = $600 grossed up by 38% = $828. Joshua has realized a gross capital gain of $2,000 ($80 less $60 = $20 times 100 shares), resulting in a taxable capital gain portion of $1,000. Taxable investment income is $828 grossed up dividends plus $1,000 taxable capital gain = $1,828. $1,828 income taxed at 26% = $475.28 federal tax less incorrect $114.00 federal dividend tax credit (15% of $600) = $385.28 federal tax.

c) is incorrect. This amount has ignored the dividend gross up and tax credit. Joshua's taxable eligible dividend income is $3 times 200 shares = $600. Joshua has realized a gross capital gain of $2,000 ($80 less $60 = $20 times 100 shares), resulting in a taxable capital gain portion of $1,000. Investment income of $600 actual dividends plus $1,000 taxable capital gain = $1,600. $1,600 income taxed at 26% = $416.00.

d) is incorrect. This amount has used the grossed up dividend amount of $828 ($600 times 1.38), but not applied the dividend tax credit. Joshua's taxable eligible dividend income is $3 times 200 shares = $600 grossed up by 38% = $828. Joshua has realized a gross capital gain of $2,000 ($80 less $60 = $20 times 100 shares), resulting in a taxable capital gain portion of $1,000. Taxable investment income is $828 grossed up dividends plus $1,000 taxable capital gain = $1,828. $1,828 income taxed at 26% = $475.28 federal tax.

Q30.

a) is incorrect. Although divorce agreements are sometimes structured so that the supporting spouse must maintain insurance on his or her life with the spouse and/or children as irrevocable beneficiaries, there is no legal obligation to do so. Such a decision would be made as part of the negotiated divorce settlement.

b) is incorrect. CPP survivor benefits are for a surviving spouse and since Aline will not be Ted's spouse at his death due to their divorce, she would not be eligible for any CPP survivor benefits.

c) is correct. Ted's RPP provides an ongoing survivor provision and Aline will receive two-thirds of his pension or $2,000 (2/3 times $3,000), which meets and exceeds his estate obligations.

d) is incorrect. Ted met his financial obligation to Aline with the designation of two-thirds of his RPP to her if he predeceases her; there is no requirement to designate Aline as beneficiary of Ted's RRSP.

Q31.

a) is incorrect. Given the nature of the yield curve, short-term rates are lower than long-term rates. Janet's objective is to earn income within her risk constraints. Due to their government backing and short time frame treasury bills provide a very low return, which does not meet her objective.

b) is incorrect. As yields change, Janet will still be exposed to reinvestment risk with short-term maturities. The yield on short-term bonds will be comparatively low and may not provide her with the income she requires, making this an inappropriate recommendation for Janet.

c) is correct. Maturities are staggered using short-, medium-, and long-term bonds, which reduces the reinvestment risk since Janet's bonds will not all mature at the same time. As the short bonds mature, they are reinvested in long-term bonds. The coupon on the long-term bonds will be higher and Janet will still have the investment flexibility with the shorter-term bonds.

d) is incorrect. A portfolio of long bonds is good if rates fall and the investor will still be receiving high coupons. However, if rates rise, Janet's capital will be locked in at lower rates than the current market. If Janet chose to sell her bonds to reinvest in a rising interest rate environment she would be realizing losses since the market price of long-term bonds will drop sharply when interest rates rise.

Q32.

a) is incorrect. Although Rita is eligible to receive a pension at age 55, it would be reduced because the required factor is not met. Today Rita has a factor of 82 (56 years of age + 26 years of service).

b) is correct. Rita can retire in 18 months and receive an unreduced pension. To meet the qualifying factor, Rita would have to retire at age 57.5 calculated as (the Earliest Retirement Age = (Member's age when joining the plan + the Qualifying Factor) divided by 2). For Rita, she began working at age 30 resulting in the Earliest Retirement Age = (30+85) divided by 2, which equals 57.5 or 18 months from today.

c) is incorrect. In two years' time, she will have a qualifying factor of 86 (58 + 28) which is more than she needs to receive an unreduced pension.

d) is incorrect. In 36 months, Rita will be 59 and she will have 29 years of service giving her a qualifying factor of 88, which is more than she needs to receive an unreduced pension.

Q33.

1. is correct. Voting retractable preferred shares will allow Greg to maintain control of the company and keep his capital value of $1 million.

2. is incorrect. The convertible preferred shares may not allow him to maintain control of the company, and with no par value there is no guarantee he will receive the $1 million value.

3. is incorrect. Greg wants to run the company and is not interested in giving voting rights to his children at this time. Further, he wants his children to benefit from the company's growth, not fund it with their common share purchase.

4. is correct. Common shares will be issued at a nominal value to his children, allowing them to benefit from the company's projected growth.

Q34.

1. is incorrect. His investment experience is not relevant to evaluating the suitability of his RRSP holdings.
2. is correct. His risk tolerance will be important in asset allocation decisions.
3. is correct. Ben's time frame for investing is critical when determining a suitable asset allocation.
4. is incorrect. his current cash flow requirements are not relevant to RRSP investments now; however, his retirement cash flow needs will be relevant to future investment decisions.

Q35

Assets	Cash	Fixed-Income	Equities	Totals
Savings	10,000			10,000
GIC		5,000		5,000
Cdn equity fund			25,000	25,000
Mortgage fund		10,000		10,000
Bond fund		20,000		20,000
For equity fund			30,000	30,000
Totals	$10,000	$35,000	$55,000	$100,000
% of Assets	10%	35%	55%	100%

1. is correct. The fixed-income assets include the GIC, mortgage fund and bond fund, which total $35,000 or 35% of total assets.

2. is incorrect. Tax efficiency has not been maximized between the registered and non-registered accounts. To improve tax efficiency, some of the $30,000 foreign equity fund should be held outside of the RRSP, and a portion of cash and/or GIC should be held in the RRSP.

3. is correct. Her equity exposure accounts for 55% of her assets which will move with inflation.

4. is incorrect. She only has 35% of her assets in fixed-income investments, so income is not her primary objective.

Q36.

Investments and Debt	Annual Income
Strip bonds	$0
Bank Co dividends (3% of $300,000)	$9,000
Less Margin loan cost (4% of $75,000)	($3,000)
Net investment income	$6,000

a) is correct. No annual income is paid on the strip bonds. $9,000 dividend income less $3,000 margin interest = $6,000.
b) is incorrect. This amount is only the $9,000 dividend income and has ignored the margin interest cost.
c) is incorrect. This amount assumes $5,000 strip bond interest plus $9,000 dividend income = $14,000 income less $3,000 margin interest. However, no annual income is paid on the strip bonds.

d) is incorrect. This amount assumes $5,000 strip bond interest plus $9,000 dividend income = $14,000 income. However, no annual income is paid on the strip bonds. Also, margin interest expense has been ignored.

Q37.

a) is incorrect. As the only voting shareholder, Jules will continue to manage and control the company. The trust holds non-voting common shares.

b) is incorrect. The retraction price would be based on the company's FMV when he exchanges his common shares for the retractable preferred shares. The retraction price is set with the share exchange and would not change with the company's future FMV.

c) is incorrect. Income paid to the minor children through the inter-vivos trust will be taxed at the top marginal rate.

d) is correct. Since Jules has maintained voting control, he can decide the amount of dividend payments to be paid on both the preferred and common shares.

Q38.

a) is incorrect. These zero amounts assume that the gain is not taxable until all of the proceeds are received next year. However, Steve would be taxable on a portion of the gain, based on the proceeds paid to him this year. Or this amount could assume that the gain is offset by the capital gains exemption. However, the use of the exemption is not available for this asset sale.

b) is correct. Since half the proceeds will be received next year, Steve can elect to claim a capital gains reserve and report only half of the taxable gain this year. $2 million proceeds less $1.2 million ACB results in a gross gain of $800,000, the taxable portion is $400,000 and half of this amount is $200,000.

c) is incorrect. With this amount, Steve has reported the entire taxable capital gain of $400,000 (half of $2 million proceeds less $1.2 million ACB). He has not maximized available tax planning options since he has not taken advantage of the capital gains reserve available to him. With sale proceeds paid over a two-year period, Steve can claim a capital gains reserve and defer the taxation of a portion of the gain to the second year.

d) is incorrect. This amount is the gross gain realized on the sale of the land. $2 million proceeds less $1.2 million ACB = $800,000 gross gain. However, only the taxable portion would be reported, and a capital gains reserve can be elected.

Q39.

1. is incorrect. The finalized divorce would have already compensated Sarah for her entitlement. Although Sarah may make a claim against his estate, she is not automatically entitled to 50% of his shares.

2. is correct. His daughter has never been involved in the business but becomes an equal shareholder with her brothers. The suitability of this share distribution should be reviewed.

3. is correct. The transfer of shares could result in a tax liability. If the divorce has left Fernando cash-poor, the estate may not have adequate liquidity to fund any tax amounts due.

4. is incorrect. Cindy's eventual 10% share of the company would not give her the balance of power when each child would own a 30% stake. Two of the children, with their combined 60% interest, would be able to outvote Cindy.

Q40.

a) is correct. GST/HST filings and payments are required and can be made on a quarterly basis.

b) is incorrect. This monthly saving is not fixed or required and would be viewed as a discretionary expense item.

c) is incorrect. The monthly mortgage payments would be viewed as a non-discretionary expense. However, this annual prepayment would not be considered a fixed expense item.

d) is incorrect. The deposit of additional funds for investment in her U/L policy is not required to maintain the policy and would be a discretionary expense item.

Q41.

a) is incorrect. This calculation uses $78,000 - $42,000 - $7,000 = $29,000 as a gross capital gain, of which 50% or $14,500 is the taxable portion. The receipt of the dividends would be included in the ACB amount. The amount received on policy surrender would be taxed as income and not capital gain.

b) is incorrect. This calculation uses 50% of $36,000 ($78,000 - $42,000). This income is not treated as capital gain income, the entire amount is taxable.

c) is correct. The policy gain is taxable as income. This $36,000 income amount is derived from cash value less ACB ($78,000 less $42,000 = $36,000). Dividends are already included in this ACB value.

d) is incorrect. This amount includes $78,000 CSV - $42,000 ACB + $7,000 dividends = $43,000. Dividends have already been taken into account.

Q42.

1. is incorrect. The power of attorney becomes void on the death of the donor. Brian no longer has authority to deal with Samuel's property.

2. is incorrect. A testamentary trust can only be established through the will.

3. is correct. As executor, Edna can hire professionals to help administer the estate. However, the decisions and ultimate responsibility will rest with her.

4. is correct. Edna can renounce her appointment as executor, and then the court will appoint an administrator for the estate.

Q43.

a) is incorrect. These are fixed income assets that offer little opportunity for growth.

b) is incorrect. 70% of these investments will pay interest income which is taxed as ordinary income.

c) is correct. Safety of capital is common to all of these investments. The retraction price on the preferred issue guarantees a set value for these shares.

d) is incorrect. An inflation hedge asset will provide growth, as it moves up with increases in inflation. These assets do not provide significant growth opportunities and will move more with interest rate changes.

Q44.

a) is incorrect. The client's age can influence their preference of cash, fixed income, or equity investments. Older clients may prefer the security of cash and GICs, while younger clients prefer the growth over time that equities can offer. Also, her retirement age will impact investment decisions.

b) is correct. Investment income earned in the RRSP is tax-deferred, so her marginal tax rate will not impact RRSP investment returns. All RRSP withdrawals will be taxed as regular income, irrespective of type of investment earnings. Her mtr should have no impact on her investment purchases within her RRSP.

c) is incorrect. Her current asset allocation should influence future investment purchases to ensure appropriate diversification. Her non-registered holdings would be included in her current asset allocation.

d) is incorrect. Previous investment experience can have an impact. A realized loss from an equity sale may cause the client to avoid future equity exposure. Or, lower returns from fixed income vehicles may prompt the client to consider equities.

Q45.

1. is incorrect. Joan, as a self-employed individual, can opt to participate in the EI program, but it is not required to enrol in it.

2. is incorrect. Joan, as a self-employed individual, can deduct only half of her CPP premiums and claim a tax credit for the other half paid.

3. is correct. Since her annual income exceeds the GST/HST registration threshold amount, she is required to charge GST/HST with her fee. She will need to register to obtain a GST/HST number and begin submission of the GST/HST return.

4. is correct. She is self-employed, so tax is not withheld from source. Since tax owing exceeds $3,000 for this year and last year, she will be required to make quarterly instalments.

Q46.

1. is incorrect. Investment purchases should not be made until his investment objectives and risk tolerance are clarified. Further, this option provides no asset diversification.

2. is correct. With Scott's Notice of Assessment, Judith can determine his unused RRSP deduction room to avoid over-contributing to his RRSP.

3. is incorrect. We do not know if there are other planning priorities for this cash, such as debt reduction or increased RRSP contribution. This recommendation may be offered after further planning and discussion with Scott. This is not the most appropriate next step for Judith to take.

4. is correct. Further discussion is required to determine his investment objectives and risk tolerance before any investing is done, especially since Scott has had no investment experience.

Q47.

a) is incorrect. This is not an immediate priority. Although he can apply for EI benefits now, he will not be eligible to receive benefits for at least 12 months since he will be paid a lump sum amount equal to one year's salary.

b) is incorrect. This is not an immediate concern since the commuted value of his RPP will be transferred in three months' time.

c) is correct. With the loss of insurance benefits within the month, Quinn needs to determine his needs and if group plans should be converted to personal coverage for now.

d) is incorrect. Rollover of severance payment to an RRSP only applies to years of service up to and including 1995. Quinn's employment at Factory Co. commenced after 1995 so there is no rollover opportunity available to him.

Q48.

a) is incorrect. These are compound interest GICs so the interest income is not received until they mature.

b) is incorrect. Payment of the CESG is made directly into the RESP account.

c) is incorrect. Contributions to a DPSP are made by the employer. Employee contributions are not allowed.

d) is correct. As a low-income family, they qualify for receipt of the quarterly GST payment.

Q49.

a) is incorrect. Although strategies to provide survivor income will be relevant, the first step is to quantify their objective.

b) is incorrect. If there is a need for life insurance, a referral may be appropriate; however, this will come after the survivor income needs have been determined.

c) is incorrect. Estate liquidity will need to be examined in their risk management review; however, the extent of their need is to be established first.

d) is correct. Before analysis and strategies are done, Alain must determine their risk management needs first.

Q50.

1. is incorrect. The age amount credit is reduced once net income reaches a set amount. If she is receiving only CPP and OAS pension income, then other sources of income such as investment could increase net income and reduce the age credit to zero. Receipt of investment income would indicate an ability to save.

2. is correct. The pension income credit is available for pension income other than CPP and OAS. If she is unable to claim this credit, it means no RPP or RRIF income which could indicate that she was unable to save to fund these plans.

3. is incorrect. A requirement to repay OAS benefits indicates that net income exceeds at least $70,000. With pension income only from CPP and OAS, this would indicate other sources of income, such as investment income, which could indicate an ability to save.

4. is correct. A reverse mortgage is taken in retirement to provide an income stream using the existing home equity. This could be due to an inadequate accumulation of retirement savings required to fund expenses, indicating an inability to save.

Q51.

a) is incorrect. Since her children would have access to income and capital, this trust would not qualify as a spousal trust. As such there would be a deemed disposition of her assets on transfer, resulting in capital gains tax. Further, little asset protection is available to her children if all beneficiaries can encroach on the trust capital.

b) is incorrect. A qualifying spousal trust provides for income during the spouse's lifetime. A qualified spousal trust does not exist if income ceases on remarriage, and as a result, a tax deferred rollover of assets to the trust cannot occur. This would not satisfy her objective to minimize tax on her death.

c) is correct. A qualifying spousal trust allows the rollover of assets to the trust at her cost base, thereby deferring capital gains tax on first death. A qualifying spousal trust allows income to be paid to the spouse only. Use of this trust protects the capital for the eventual distribution to her children and minimizes tax on her death.

d) is incorrect. If trust income can be paid to her children when required, this trust would not qualify as a spousal trust. As such, the spousal rollover provisions to defer capital gains would not be available when assets are transferred into the trust, resulting in a deemed disposition and capital gains tax on her death. This option does not minimize tax on first death.

Q52.

Assets	Cash	Fixed-Income	Equities	Totals
DPSP			10,000	10,000
RRSP		40,000		40,000
ESPP			30,000	30,000
Savings acct.	5,000			5,000
Term deposit	5,000			5,000
Money Market	10,000			10,000
Total	$20,000	$40,000	$40,000	$100,000
%	20%	40%	40%	100%

a) is incorrect. His current asset allocation is: 20% cash ($5,000 savings account, $5,000 term deposit, $10,000 money market fund), 40% fixed income ($40,000 mortgage backed securities), and 40% equities ($10,000 equity funds, $30,000 share purchase plan). This allocation incorrectly classes $5,000 term deposit and $10,000 money market as fixed income and $40,000 MBS securities as equities, resulting in $5,000 cash, $15,000 fixed income and $80,000 equities.

b) is incorrect. His current asset allocation is: 20% cash ($5,000 savings account, $5,000 term deposit, $10,000 money market fund), 40% fixed income ($40,000 mortgage backed securities), and 40% equities ($10,000 equity funds, $30,000 share purchase plan). This allocation incorrectly classes the $10,000 money market as fixed income, resulting in $10,000 cash, $50,000 fixed income, and $40,000 equities.

c) is correct. His current asset allocation is: 20% cash ($5,000 savings account, $5,000 term deposit, $10,000 money market fund), 40% fixed income ($40,000 mortgage backed securities), and 40% equities ($10,000 equity funds, $30,000 share purchase plan). The term deposit is short term and money market is very liquid, making them cash assets. Mortgage backed securities are a fixed income asset, and the $30,000 FMV of ESPP shares is included in his equity assets.

d) is incorrect. His current asset allocation is: 20% cash ($5,000 savings account, $5,000 term deposit, $10,000 money market fund), 40% fixed income ($40,000 mortgage backed securities), and 40% equities ($10,000 equity funds, $30,000 share purchase plan). This allocation incorrectly uses the $10,000 ACB of ESPP shares rather than the $30,000 FMV, resulting in a total worth of $80,000. With assets worth $80,000, $20,000 cash is 25%, $40,000 fixed income is 50%, and $20,000 equities is 25%.

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