Reliable IFC Practice Exam Learning Materials: Investment Funds in Canada (IFC) Exam - ActualVCE

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CISI Investment Funds in Canada (IFC) Exam Sample Questions (Q30-Q35):

NEW QUESTION # 30
What portion of the withdrawal from a Registered Educational Savings Plan is tax-free?

- A. Capital gains earned
- B. Dividend income earned
- C. Canadian Educational Savings Grant (CESG) amounts
- D. Original capital contributed

Answer: D

Explanation:
Comprehensive and Detailed Explanation From Exact Extract:
The original capital contributed to a Registered Educational Savings Plan (RESP) is not taxed upon withdrawal, while other amounts, such as income or grants, are taxable to the beneficiary. The feedback from the document states:
"The original capital withdrawn from an RESP is not taxed; all other amounts are taxed in the hands of the beneficiary."
Reference:Chapter 6 - Tax and Retirement PlanningLearning Domain:The Know Your Client Communication Process

NEW QUESTION # 31
Pippa purchased a 15-year bond with a face value of $5,000 and a 7% coupon rate at the time of issuance. The bond is due to mature later this year. The general interest rate climate remained stable for the first 13 years of the bond's term. However, especially over the past 18 months, both inflation and general interest rates have increased more than expected.
What is Pippa likely to experience from her bond?

- A. Due to inflation, Pippa will experience a capital loss once her bond reaches maturity.
- B. With the unanticipated rise in inflation, Pippa will benefit from a higher real rate of return as well.
- C. With capital appreciation at 7% annually, Pippa's capital gain will be reduced by inflation at maturity.
- D. The return of investment capital will have lower purchasing power than prior to investing.

Answer: D

Explanation:
According to the Canadian Investment Funds Course, inflation is the general increase in the prices of goods and services over time. Inflation reduces the purchasing power of money, meaning that a dollar can buy less in the future than it can today. Inflation also affects the returns of fixed income investments, such as bonds, which pay a fixed amount of interest and principal. If inflation is higher than expected, the real rate of return (the nominal rate minus inflation) of a bond will be lower than anticipated.
In this case, Pippa purchased a 15-year bond with a 7% coupon rate at the time of issuance. The bond is due to mature later this year. The general interest rate climate remained stable for the first 13 years of the bond's term. However, especially over the past 18 months, both inflation and general interest rates have increased more than expected. This means that Pippa will receive less purchasing power from her bond's interest and principal payments than she expected when she bought the bond. She will not experience a capital loss, as she will receive the full face value of $5,000 at maturity. She will also not benefit from a higher real rate of return, as inflation erodes the value of her fixed payments. She will not receive any capital appreciation, as the bond' s price does not change once it is held to maturity.
Therefore, the correct answer is C. The return of investment capital will have lower purchasing power than prior to investing.
1: Canadian Investment Funds Course - IFSE Institute 2 (Unit 4: Fixed Income Securities)

NEW QUESTION # 32
Which of the following formulas correctly shows how taxable income is calculated?

- A. gross income less tax credits
- B. the sum of income from all sources
- C. the sum of earned income and investment income
- D. total income less tax deductions

Answer: D

Explanation:
According to the Canada Revenue Agency, taxable income is the amount used to calculate federal tax and provincial or territorial tax on the income tax return. Taxable income is calculated by subtracting tax deductions from total income. Total income is the sum of income from all sources, such as employment, business, investment, pension, and other income. Tax deductions are amounts that can be subtracted from total income to reduce the amount of income that is subject to tax. Some examples of tax deductions are RRSP contributions, child care expenses, moving expenses, and alimony payments. Tax credits are not subtracted from total income, but rather from the tax payable. Tax credits are amounts that can reduce the amount of tax owed or increase the amount of refund. Some examples of tax credits are basic personal amount, spouse or common-law partner amount, Canada workers benefit, and foreign tax credit.
Therefore, the correct answer is C. total income less tax deductions.
1: Line 26000 - Taxable income - Canada.ca 2

NEW QUESTION # 33
The Optima Equity Fund has a beta of 1.4. What is the most accurate way to describe the Optima Equity Fund' s relationship to the market as a whole?

- A. If the market goes down by 5%, the Optima Fund should go down by 5.7%
- B. If the market goes up by 5%, the Optima Fund should go up by 7%
- C. If the market goes down by 10%, the Optima Fund should go up by 11.4%

- D. If the market goes up by 10%, the Optima Fund should go up by 11.4%

Answer: B

Explanation:
Comprehensive and Detailed Explanation From Exact Extract:
A beta of 1.4 indicates that the Optima Equity Fund is 1.4 times more volatile than the market. If the market rises by 5%, the fund is expected to rise by 5% × 1.4 = 7%. The feedback from the document states:
"One way to measure market risk is by calculating a portfolio's beta. Beta shows how much a portfolio fluctuates when the market as a whole fluctuates. A higher beta means that the portfolio is exposed to more risk. The market has a beta of 1.0. In this example: The Optima Equity Fund has a beta of 1.4, which means the Fund is expected to be 1.4 times more volatile than the market as a whole. If the S&P/TSX Composite Index is used to measure the performance of the Optima Fund, then if the Index rose by 10% you would expect to see the Optima Fund rise by 14% (1.4 × 10%)." Reference:Chapter 8 - Constructing Investment PortfoliosLearning Domain:Understanding Investment Products and Portfolios

NEW QUESTION # 34
The following table shows Sabrina's earned income for the past few years:

Year	Earned Income
Year 1	$125,000
Year 2	$140,000
Year 3	$145,000

Sabrina has always maximized her RRSP contributions, so she has no carry-forward room available. If the maximum contribution limit for Year 3 is $24,270, what is her RRSP contribution room for Year 3?

- A. $26,100
- B. $25,200
- C. $24,270
- D. $22,500

Answer: C

Explanation:
Sabrina's RRSP contribution room for Year 3 is $24,270. This is because the maximum contribution limit for Year 3 is $24,270 and Sabrina has always maximized her RRSP contributions, so she has no carry-forward room available.
Canadian Investment Funds Course, Chapter 5: Registered Plans

NEW QUESTION # 35
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