Certified Financial Planner (CFP®) Practice Exam #3

Case Study

PlannerPrep

CFP Case Study #1 – Victor and Renata Alvarez

Victor Alvarez, age 46, and Renata Alvarez, age 43, have been married for 17 years and have engaged your services as a CFP® professional to help them plan for their daughter's upcoming college expenses and evaluate a potential business investment. Assume today is January 1, 2026.

Personal Background and Information

Victor is a plant operations manager for a regional food distributor, earning an annual salary of $96,000. Renata is a self-employed interior designer operating as a sole proprietorship, which generated net profit of $54,000 during 2025.

Victor and Renata have two children:

- Sofia, age 16, is a high school junior who plans to begin a four-year in-state university program in two years, immediately after high school graduation, and is expected to remain a financially dependent student throughout college. The current annual cost of attendance (tuition, room, board, and books) is $24,000, and the Alvarezes expect education costs to increase at 5% annually.
- Mateo, age 9, is in the fourth grade.

Victor's father, Hector, age 74, is retired, in good health, and would like to help fund Sofia's education. Hector asks what gifting approach would let him contribute toward Sofia's tuition without using any of his annual gift tax exclusion or lifetime gift and estate tax exemption.

Education and Financial Aid Considerations

The Alvarezes have not yet opened any dedicated education savings account for Sofia and are unsure whether a 529 plan, a Coverdell Education Savings Account, or a custodial UTMA account would best fit their situation. They have also asked how different funding approaches — including a gift of cash, a direct payment of tuition, a 529 plan contribution, and a custodial account — might affect Sofia's eligibility for need-based federal financial aid under the financial aid rules currently in effect.

Business and Investment Considerations

Renata is considering purchasing a $15,000 commercial embroidery machine for her design studio. She projects the following after-tax cash flows from the purchase: a net cost of $3,000 in Year 1 (reflecting training and setup costs that exceed additional revenue), breaking even in Year 2, net income of $6,000 in Year 3, and net income of $9,000 in Year 4, plus an estimated after-tax salvage value of $1,000 at the end of Year 4. Renata's required rate of return for this business investment is 10%. Assume all tax effects, including any depreciation deductions, have already been incorporated into these projected after-tax cash flows.

Separately, Renata's brokerage firm is underwriting an initial public offering (IPO) for a regional technology company, and Renata is deciding whether to participate.

Professional Conduct Considerations

The Alvarezes are considering engaging a new CFP® professional who disclosed, as part of the standard background review, that they filed for Chapter 7 bankruptcy nine years ago and were convicted of a single misdemeanor for alcohol-related disorderly conduct while in college, unrelated to fraud, theft, or dishonesty. The Alvarezes ask what this disclosure means for the professional's ability to hold CFP® certification.

Separately, Victor's brother-in-law, who serves on the board of a publicly traded company, mentioned in confidence at a family dinner that the company plans to announce disappointing quarterly earnings before the information is made public. Victor shared this with his current CFP® professional and asked whether he should sell his shares in the company before the announcement. Victor also asked whether selling only half of his position, rather than his entire position, would change the analysis.

The Alvarezes are also comparing this CFP® professional, who provides ongoing Financial Advice, with a broker-dealer representative who operates under Regulation Best Interest, and want to understand a key difference between the two standards.

Finally, the Alvarezes noticed that another local planner's marketing materials advertise investment performance figures for a model portfolio that the planner knows are inflated well beyond the portfolio's actual historical results, in order to attract new clients.

Economic and Planning Assumptions

General inflation is assumed to average 3% annually, and the Alvarezes' portfolio is assumed to earn a required rate of return of 8% annually for planning purposes unless otherwise noted for a specific goal.

Statement of Financial Position — January 1, 2026

Assets

Asset	Value
Checking account	$10,000
Savings account	$8,000
Total liquid assets	$18,000
Victor's 401(k)	$260,000
Renata's SEP-IRA	$70,000
Brokerage account	$25,000
Total invested assets	$355,000
Residence	$450,000
Automobiles and personal property	$60,000
Total Assets	**$883,000**

Liabilities

Liability	Balance
Mortgage balance	$310,000
Auto loan	$20,000
Credit cards	$6,000
Total Liabilities	**$336,000**

Net Worth: $547,000

Monthly Cash Flow Statement — 2026 (Expected)

Inflows

Source	Amount
Victor's salary	$8,000
Renata's practice net profit	$4,500
Dividends and interest	$100
Total Monthly Inflows	**$12,600**

Outflows

Expense	Amount
Victor's 401(k) contribution	$500
Renata's SEP-IRA contribution	$400
Additional brokerage account savings	$100
Total savings	$1,000
Food	$900
Utilities	$350
Auto maintenance/gas	$280

Expense	Amount
Clothing	$200
Entertainment	$300
Charitable contributions	$200
Total ordinary living expenses	$2,230
Mortgage payment (P&I)	$1,950
Auto loan payment	$420
Credit card minimum payment	$120
Total other payments	$2,490
Homeowners insurance	$110
Automobile insurance	$180
Disability insurance	$140
Total insurance premiums	$430
Property tax (principal residence)	$260
Federal/state withholding and self-employment tax	$2,900
Total taxes	$2,900
Total Monthly Outflows	**$9,310**

Monthly Surplus: $3,290

Client Objectives

- Determine the projected future cost of Sofia's first year of college.
- Compare available education savings vehicles and recommend an appropriate funding strategy.
- Understand how different funding approaches may affect Sofia's eligibility for need-based financial aid.
- Identify a gifting strategy that allows Hector to contribute toward Sofia's education without using his annual exclusion or lifetime exemption.
- Evaluate the financial merits of Renata's proposed embroidery machine purchase.
- Calculate the Alvarezes' current savings ratio and assess their overall savings progress.
- Clarify the professional conduct, fiduciary, and regulatory considerations raised by the various professionals the Alvarezes are evaluating.