



# CFA-LEVEL-1<sup>Q&As</sup>

CFA Level I Chartered Financial Analyst

**Pass CFA CFA-LEVEL-1 Exam with 100% Guarantee**

Free Download Real Questions & Answers **PDF** and **VCE** file from:

<https://www.geekcert.com/cfa-level-1.html>

100% Passing Guarantee  
100% Money Back Assurance

Following Questions and Answers are all new published by CFA Official Exam Center

-  **Instant Download** After Purchase
-  **100% Money Back** Guarantee
-  **365 Days** Free Update
-  **800,000+** Satisfied Customers





### QUESTION 1

When prices are falling, which of the following is/are true?

- I. FIFO results in higher current assets.
  - II. LIFO results in higher taxes.
  - III. LIFO results in higher income.
  - IV. FIFO allows earnings manipulation through purchasing behavior.
- A.  
II and III
- B.  
II, III and IV
- C.  
I and IV
- D.  
II only

Correct Answer: A

When prices are falling, the units purchased later have a lower purchase price. Therefore, under the FIFO cost-flow assumption, the higher cost goods will be assumed to have been sold first. This will raise COGS, lower the ending inventory value (and therefore lower current assets), lead to lower income and hence lower income taxes compared to LIFO. However, earnings manipulation is not possible under FIFO.

---

### QUESTION 2

Under the indirect method, cash flow from operating activities is computed by adjusting net income for all of the following, except

- A. noncash changes in fixed assets.
- B. nonoperating items included in net income.
- C. noncash revenues and expenses.
- D. noncash changes in operating assets.
- E. noncash changes in operating liabilities.

Correct Answer: A



---

Only operating assets are considered, not fixed assets.

---

### QUESTION 3

A derivative security pays \$100 if the Dow Jones Industrial Average shows a 15% return over the next year and does not pay anything if the return is lower. If the security costs \$45 and its expected return is 30%, what's the probability that the Dow Jones return will exceed 15%?

- A. 39.87%
- B. 58.51%
- C. 41.49%
- D. 61.22%

Correct Answer: B

If  $p$  is the probability of the Dow Jones return exceeding 15%, then the expected total return on the derivative security is  $(p * 100 + (1-p)*0)/45 = 2.222p$ . Since the expected return is given to be 30%, we get  $2.22p = 1.3$ . Therefore,  $p = 1.3/2.222 = 58.51\%$

---

### QUESTION 4

In computing EPS, the equivalent number of shares of convertible preferred stock is added as an adjustment to the denominator (number of shares outstanding). If the preferred stock is preferred as to dividends, which amount should then be added as an adjustment to the numerator (earnings available to common shareholders)?

- A. Annual preferred dividend.
- B. Annual preferred dividend times (100% minus the income tax rate).
- C. Annual preferred dividend divided by the income tax rate.
- D. No adjustment should be made.
- E. Annual preferred dividend times the income tax rate.

Correct Answer: A

If a capital structure has convertible preferred stock with a dilutive effect on EPS, the "if-converted" method is used. This method assumes the conversion of the preferred stock occurred at the beginning of the accounting period or at issuance, if later. The annual preferred dividend is added back to earnings available to common shareholders.

---

### QUESTION 5

Which of the following statements reflects the basic purposes of financial reporting?

- A. The best indication of a firm's ability to generate favorable cash flow is information based on previous cash receipts and payments.



- B. Financial accounting is expressly designed to measure directly the value of a business enterprise.
- C. None of these answers.
- D. The primary focus of financial reporting is information about an enterprise's resources.
- E. Investments and credit decisions often are based, at least in part, on evaluations of the past performance of an enterprise.

Correct Answer: E

Although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based, at least in part, on evaluations of past enterprise performance.

[Latest CFA-LEVEL-1 Dumps](#)

[CFA-LEVEL-1 Practice Test](#)

[CFA-LEVEL-1 Study Guide](#)