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QUESTION 1

The Basic EPS represents which of the following?

- I. The net income divided by number of shares outstanding.
- II. The amount of net income available for distribution to common stock holders, per share.
- III. The net income after preferred dividends, expressed per common share.
- IV.
Net income after preferred dividends divided by total equity.

- A.
II and III
- B.
III and IV
- C.
I, II and IV
- D.
I, II, III and IV

Correct Answer: A

For a simple capital structure, Basic EPS = (Net Income - Preferred dividends)/weighted # of common shares = The amount of net income available for distribution to common stock holders, per share. Net income after preferred dividends divided by total equity is not true since total equity includes preferred equity whereas the denominator of Basic EPS consists only of common shares.

QUESTION 2

With a discount rate of 12% per year, the value of a perpetuity that pays \$500 every year is:

- A. \$5,231
- B. \$6,000
- C. \$4,167
- D. \$4,756

Correct Answer: C

The value of the perpetuity = $500/0.12 = 4,167$



QUESTION 3

Topaz Metals Inc. produces precious metals from its mining operations. The selling price for its product is reasonably assured, the units are interchangeable, and the costs of selling and distributing the product are insignificant. In order for Topaz to recognize revenue as early in the revenue cycle as is permitted under generally accepted accounting principles, the revenue recognition method that Topaz should use is the _____.

- A. percentage-of-completion method
- B. production method
- C. cash method
- D. completed-contract method
- E. cost recovery method

Correct Answer: B

Revenue is recognized when the conditions of "realized" or "realizable" and earned are met. If products are readily realizable because they are salable at reliably determinable prices without significant effort, revenues may be recognized at completion of production.

QUESTION 4

Which of the following is/are true about operating cash flows of a project?

- I. The annual operating cash flow equals operating income minus net non-cash expenses.
- II. Financing costs are excluded from the operating cash flows.
- III.
Project evaluation is based on net cash flows, not net income.

- A.
III only
- B.
I, II and III
- C.
I only
- D.
II and III
- E.



I and III

F.

II only

G.

I and II

Correct Answer: D

The annual operating cash flow equals operating income plus net non-cash expenses. Financing costs are excluded since they are accounted for in the discounting process through the use of WACC.

QUESTION 5

Mutual funds are distributed by

A. three major methods: through brokers, through dedicated sales forces, or through direct purchase from the fund or direct marketing. Most no-load funds have been distributed through brokers, while most load funds have been distributed through direct marketing.

B. two major methods: through a sales forces, or through direct purchase from the fund or direct marketing. Although most funds are currently distributed through direct marketing, there has recently been a trend toward distribution through a sales force.

C. three major methods: through brokers, through dedicated sales forces, or through direct purchase from the fund or direct marketing. Most no-load funds have been distributed through a sales force, while most load funds have been distributed through brokers.

D. two major methods: through a sales forces, or through direct purchase from the fund or direct marketing. Although most funds are currently distributed through a sales force, there has recently been a trend toward distribution through direct marketing.

Correct Answer: D

In the past, no-load funds were sold only through direct marketing because the lack of a sales fee made it difficult to compensate brokers or a dedicated sales force. More recently, some brokers have started distributing no-load funds. Currently, about 54% of funds are distributed through a sales force, while 34% are distributed through direct marketing.

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