QUESTIONS & ANSWERS

Kill your exam at first Attempt

KILL EXAMS

Financial

CFA-Level-I

Chartered Financial Analyst Level I (CFA Level I)

QUESTION: 566
For which of the following ways of manipulating cash flow would an analyst be most likely to reclassify financing cash outflows as operating cash outflows? A firm has:

A. financed its payables.
B. securitized receivables.
C. repurchased stock to offset dilution.

Answer: C

QUESTION: 567
An analyst gathers the following information:
• Net income $100
• Decrease in accounts receivable 30
• Depreciation 25
• Increase in inventory 17
• Increase in accounts payable 10
• Decrease in wages payable 5
• Increase in deferred taxes 17
• Sale of fixed assets 150
• Purchase of fixed assets 340
• Profit from the sale of fixed assets 5
• Dividends paid out 35
• Sale of new common stock 120
Based on the above information, the company's cash flow from operations under U.S. GAAP is:

A. $155.
B. $165.
C. $182.

Answer: A

QUESTION: 568
Which of the following statements about cash flow is least likely correct? Under U.S. GAAP, cash flow from:

A. operations includes cash operating expenses and changes in working capital accounts.

B. financing includes the proceeds of debt issued and from the sale of the company's common stock.
C. investing includes interest income from investment in debt securities.

Answer: C

QUESTION: 569
An analyst gathered the following data about a company:
The company had 500,000 shares of common stock outstanding for the entire year.
The company's beginning stock price was $40, its ending price was $60, and its average price over the year was $50.
The company has 120,000 warrants outstanding for the entire year.
Each warrant allows the holder to buy one share of common stock at $45 per share.
How many shares of common stock should the company use in computing its diluted earnings per share?

A. 488,000.
B. 500,000.
C. 512,000.

Answer: C

QUESTION: 570
Books Forever, Inc., uses short-term bank debt to buy inventory. Assuming an initial current ratio that is greater than 1, and an initial, quick (or acid test) ratio that is less than 1, what is the effect of these transactions on the current ratio and the quick ratio?

A. Both ratios will decrease.
B. Neither ratio will decrease.
C. Only one ratio will decrease.

Answer: A

QUESTION: 571
Costiuk, Inc., is an agricultural firm that has committed to purchasing 10,000 kilograms of fertilizer at specific prices over the next three years. Which part of the financial statements will most likely contain information regarding this transaction?

A. Balance sheet.
B. Management's discussion and analysis.
C. Notes to the financial statements.

Answer: C

QUESTION: 572
Which of the following statements about expenses and intangible assets is least likely accurate?

A. Advertising fees are generally expensed as incurred.
B. In most countries, research and development costs are capitalized,
C. Intangible assets are initially entered on the balance sheet at their purchase prices when they are acquired from an outside entity.

Answer: B

QUESTION: 573
Which of the following accounting practices is most likely to decrease reported earnings in the current period?

A. Using the straight-line method of depreciation instead of an accelerated method.
B. Capitalizing advertising expenses rather than expensing them in the current period.
C. Using LIFO inventory cost methods during a period of rising prices.

Answer: C

QUESTION: 574
Which of the following statements about dilutive securities is least likely accurate?

A. A simple capital structure is one that contains only common stock and antidilutive securities.
B. A dilutive security is one that will cause earnings per share (EPS) to decrease if it is converted into common stock.

C. Warrants with exercise prices less than the current stock price can be antidilutive.

Answer: A

QUESTION: 575

As of January 1, a company had 22,500 $10 par value common shares outstanding. On July 1, the company repurchased 5,000 shares. The company also has 11,000, 10%, $100 par value preferred shares. If the company's net income is $210,000, its diluted earnings per share is closest to:

A. $5.00.
B. $7.50.
C. $10.00.

Answer: A

QUESTION: 576

In periods of rising prices and stable or increasing inventory quantities, compared with companies that use LIFO inventory accounting, companies that use the FIFO method will have:

A. higher COGS and lower taxes.
B. higher net income and higher taxes.
C. lower inventory balances and lower working capital.

Answer: B

QUESTION: 577

Rowlin Corporation, which reports under IFRS, wrote down its inventory of electronic parts last period from its original cost of £28,000 to net realizable value of £25,000. This period, inventory at net realizable value has increased to £30,000. Rowlin should revalue this inventory to:

A. £30,000 and report a gain of £5,000 on the income statement.
B. £28,000 and report a gain of £3,000 on the income statement.
C. £30,000 but report a gain of only £3,000 on the income statement.

Answer: B

QUESTION: 578
Compared with expensing the costs of a long-lived asset, a company that capitalizes these costs will:

A. show smoother reported net income and higher return on assets in future years.
B. have higher cash flow from operations and lower cash flow from investing.
C. have lower profitability ratios in the current year and higher cash flows from operations.

Answer: B

QUESTION: 579
In the early years of an asset's life, a firm that chooses an accelerated depreciation method instead of using straight-line depreciation will tend to have:

A. lower net income and lower equity.
B. higher return on equity and higher return on assets.
C. lower depreciation expense and lower turnover ratios.

Answer: A

QUESTION: 580
Which of the following definitions used in accounting for income taxes is least accurate?

A. Income tax expense is based on current period pretax income adjusted for any changes in deferred tax assets and liabilities.
B. A valuation allowance is a reserve against deferred tax assets based on the likelihood that those assets will not be realized.
C. A deferred tax liability is created when tax expense is less than taxes payable and the difference is expected to reverse in future years.

Answer: C

QUESTION: 581
From the extended (5-part) DuPont equation, which of the following components describes the equation EBT / EBIT?

A. Tax burden.
B. EBIT margin.
C. Interest burden.

Answer: C

QUESTION: 582
Under U.S. GAAP, which of the following statements about the financial statement effects of issuing bonds is least likely accurate?

A. Issuance of debt has no effect on cash flow from operations.
B. Periodic interest payments decrease cash flow from operations by the amount of interest paid.
C. Payment of debt at maturity decreases cash flow from operations by the face value of the debt.

Answer: C

QUESTION: 583
When the expected tax rate changes, deferred tax:

A. expense is calculated using current tax rates with no adjustments.
B. liability and asset accounts are adjusted to reflect the new expected tax rate.
C. liability and asset accounts are maintained at historical tax rates until they reverse.

Answer: B

QUESTION: 584
In general, as compared to companies with finance leases, companies with operating leases report:

A. higher working capital and higher asset turnover.
B. higher cash flow from operations and lower cash flow from financing.
C. lower expense in the early years of the lease and higher expenses over the life of the lease.

Answer: A

QUESTION: 585
An asset is considered impaired if its book value is:

A. less than its market value.
B. greater than the present value of its expected future cash flows.
C. greater than the sum of its undiscounted expected cash flows.

Answer: C