Vendor:CFA

Exam Code:CFA-LEVEL-1

Exam Name:CFA Level I Chartered Financial Analyst

Version: Demo

QUESTION 1

How much would an original deposit of $900 grow to be after 10 and a half years, if the deposit earns interest at 6.5% per year, compounded quarterly?

A. $1,853.97

B. $1,254.58

C. $1,573.42

D. $1,771.19

E. $1,837.51

Correct Answer: D

On the BAII Plus, press 42 N, 6.5 divide 4 = I/Y, 900 PV, 0 PMT, then press CPT FV. On the HP12C, press 42 n, 6.5 ENTER 4 divide i, 900 PV, 0 PMT, then press FV. Note that N = 42 quarters (10.5 x 4 =) and the answer is displayed as a negative number. Make sure that the BAII Plus has the P/Y value set to 1.

QUESTION 2

Permanent earnings refers to

A. the net cash flow plus the change in market value of the firm\\'s net assets.

B. the amount of earnings that can be paid out as dividends without changing the value of the firm.

C. the level of earnings that can be maintained in the future given the firm\\'s capital investment.

D. the amount that can be normally earned and equals the market value of the firm\\'s assets times the firm\\'s required rate of return.

E. the average earnings the firm generates over a specified period.

F. none of these answers.

Correct Answer: D

Permanent earnings is similar to economic earnings; it is the base to which a multiple is applied to arrive at a "fair price."

QUESTION 3

A dataset of 105 observations is organized in a relative frequency distribution into 9 classes. The sum of the relative frequencies across all the classes equals ________.

A. 9

B. 1

C. 105

D. 100

Correct Answer: B

Relative class frequencies are percentages and across all classes, they must sum up to 100%, which is the same as summing up to 1.00.

QUESTION 4

A firm issued 2 million warrants with an exercise price of 102 on June 15, 1996. The maximum price of the stock in 1996 was 129, the average price was 110. The stock closed out the year at 99. How many additional shares must be used in the computation of Diluted EPS as a result of these warrants?

A. 111,782

B. 145,454

C. 78,788

D. zero

Correct Answer: C

The conversion assumptions for options and warrants are as follows:

1.

They are assumed to be exercised at the beginning of the period or at the time of issuance, whichever is later.

2.

They enter into the Diluted EPS calculations only if the average stock price during the period exceeds the exercise price. With the Treasury stock method, the total shares repurchased using exercise proceeds = 2*102/110 = 1,854,546. Thus, additional shares issued = 2 million - 1,854,546 = 145,454. These are outstanding for 6.5 months. Therefore, additional weighted shares = 145,454*6.5/12 = 78,788.

QUESTION 5

Standard II includes rules on which of the following?

A. Professional Misconduct

B. Prohibition against Plagiarism

C. All of these answers

D. Use of Professional Designation

Correct Answer: C

Standard II - Relationships with and Responsibilities to the Profession - includes rules on the use of Professional

Designation, Professional Misconduct and Prohibition against Plagiarism.

QUESTION 6

Technical analysis

A. does not conflict with the efficient market hypothesis. Technical analysis claims that the market moves in trends that can be predicted before they occur. The key to profiting from technical analysis involves a consistent ability to use past and present market data to predict future trends.

B. does not conflict with the efficient market hypothesis. Technical analysts believe that information is disseminated slowly, first to the professionals, and later to the great bulk of investors. This causes stock prices to move in trends.

C. conflicts with the efficient market hypothesis. Technical analysis claims that the market moves in trends that can be predicted before they occur. These trends are caused by the fact that information is disseminated relatively quickly.

D. conflicts with the efficient market hypothesis. Technical analysts believe that information is disseminated relatively slowly, first to the professionals, and later to the great bulk of investors. In contrast, advocates of the efficient market hypothesis believe that information is spreads very quickly and is reflected in stock prices soon after it is available.

Correct Answer: D

Technical analysts believe that information is disseminated relatively slowly, causing the market to move in trends. They key to profiting from technical analysis lies in finding existing trends and exploiting them. The efficient market hypothesis holds that past market data (which is used to find trends) is already reflected in current prices, making effective technical analysis impossible.

QUESTION 7

Which of the following equations correctly illustrates the calculation of the cost of equity using the Dividend-Yield-plus-Growth-Rate approach?

A. Annual dividend/current stock price * (1-tax rate)

B. (Next annual dividend/current stock price) + expected growth rate

C. (Retention rate)*(ROE)

D. Risk-free rate of return + beta(expected return on the market - risk-free rate of return)

E. Payout ratio * (ROE/[expected return-required rate of return])

F. (Last annual dividend/[expected return - required return]) * expected growth rate

Correct Answer: C

The Dividend-Yield-plus-Growth-Rate approach calls for the following components: next annual dividend, current stock price, and expected growth rate. This approach, also known as the Discounted Cash Flow (DCF) method, is a flexible and very adept tool in the hands of the financial analyst, and is it is imperative that the CFA candidate fully understand both the applications and the methodology of this approach. The first choice illustrates the Capital Asset Pricing Model, while the second represents an approach for calculating sustainable growth rate. The remaining answers are somewhat fictitious.

QUESTION 8

What is the value of a stock that is expected to pay a $10 per share dividend in a year\\'s time, and to be selling for $30 per share at the end of the year? The appropriate discount rate is 10% per year.

A. $40.61

B. $36.36

C. $30.35

D. Not able to compute with the above data.

Correct Answer: B

Value = $40/1.10=$36.36.

QUESTION 9

Excerpts from the balance sheet of Milton Corporation as of April 30, 1997 are presented as follows:

Cash $725,000 Accounts receivable (net) $1,640,000 Inventories $2,945,000 Total current assets $5,310,000 Accounts payable $1,236,000 Accrued liabilities $831,000 Total current liabilities $2,067,000

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The board of directors of Milton met on May 5, 1997 and declared a quarterly cash dividend in the amount of $200,000 ($0.50 per share). The dividend was paid on May 28, 1997 to shareholders of record as of May 15, 1997. Assume that the only transactions that affected Milton during May 1997 were the dividend transactions. If the dividend declared by Milton had been a 10% stock dividend instead of a cash dividend, Milton\\'s current liabilities would have been

A. unchanged by either the dividend declaration or the dividend distribution.

B. unchanged by the dividend declaration and decreased by the dividend distribution.

C. decreased by the dividend declaration and increased by the dividend distribution.

D. increased by the dividend declaration and decreased by the dividend distribution.

E. increased by the dividend declaration and unchanged by the dividend distribution.

Correct Answer: A

The declaration and distribution of a stock dividend involves transferring an amount from retained earnings to common stock. However, there is no impact on current liabilities as there is no future obligation created to distribute cash.

QUESTION 10

Becker Glass Corporation expects to have earnings before interest and taxes during the coming year of $1,000,000, and it expects its earnings and dividends to grow indefinitely at a constant annual rate of 12.5 percent. The firm has

$5,000,000 of debt outstanding bearing a coupon interest rate of 8 percent, and it has 100,000 shares of common stock outstanding. Historically, Becker has paid 50 percent of net earnings to common shareholders in the form of dividends. The current price of Becker\\'s common stock is $40, but it would incur a 10 percent flotation cost if it were to sell new stock. The firm\\'s tax rate is 40 percent. What is the firm\\'s cost of retained earnings?

A. 15.0%

B. 15.5%

C. 16.5%

D. 16.0%

E. 17.0%

Correct Answer: E

EBIT$1,000,000 Interest400,000 EBT$600,000 Taxes (40%)240,000 Net income$360,000 EPS(1) = $360,000/100,000 = $3.60. D(1) = $3.60(0.5)= $1.80. k(s) = ($1.80/$40.00) + 0.125 = 17.0%.

QUESTION 11

The standard deviation of a two-stock portfolio least likely:

A. must be less than or equal to the weighted-average standard deviation.

B. can be reduced by increasing the relative weight of the stock with lower standard deviation.

C. will be the lowest when the correlation between the two stocks equals zero.

Correct Answer: C

QUESTION 12

Firm A capitalized an expense and an otherwise identical Firm B expensed it. Then,

A. A shows higher operating cash flow and investing cash flow.

B. A shows higher operating cash flow and lower investing cash flow.

C. A shows lower operating cash flow and investing cash flow.

D. A shows lower operating cash flow and higher investing cash flow.

Correct Answer: B

Since the capitalized expense represents an investing cash outflow, the investing cash flow is lower for A. Firm B charges all the expenditure to operating cash flow and has a lower operating cash flow than A.