CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

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QUESTION 1

Under Standard IV (B.6), Prohibition against Misrepresentation, a member may discuss a "guaranteed" investment, as long as that investment is which of the following?

A. domestic stocks

B. foreign stocks

C. medium-term notes

D. long-term bonds

E. none of these answers

F. short-term Treasury securities

Correct Answer: F

Standard IV (B.6) prohibits statements that an investment is "guaranteed", or that superior returns can be expected in the future based on the member repeating past success. It does not preclude truthful statements on investments with guaranteed returns, such as some insurance contracts, short-term Treasury securities and insured bank deposits.

QUESTION 2

ROE is equal to

A. net sales divided by equity.

B. net income divided by total capital.

C. net income divided by equity.

D. Risk-free rate divided by equity.

Correct Answer: C

Return on equity (ROE) multiplied by the retention rate is equal to the growth rate of earnings and dividends. The growth rate, in turn, is used to derive the earnings multiplier, which is used to value stocks.

QUESTION 3

Cash received from the sale of fixed assets is an example of:

A. cash flows from investing activities

B. cash flows from operating activities

C. cash flows from financing activities

D. cash flows from noncash investing and financing activities

Correct Answer: A

Investing activities usually involve activities that affect long-term assets.

QUESTION 4

Using the dividend discount model, the spread between the required rate of return on a stock and the expected growth rate of dividends on that stock is equal to

A. the expected dividend payment divided by its price.

B. the dividend payout ratio divided by the price.

C. its price divided by the dividend payout ratio.

D. its price divided by the expected dividend payment.

Correct Answer: A

Using the dividend discount model, the price of a stock is equal to D / (k - g), where D is the expected dividend, k is the required rate of return, and g is the expected growth rate of dividends for the stock. Rearranging this equation yields D/P = k - g.

QUESTION 5

A firm\\'s gross profit margin equals 35.2% and the operating profit margin equals 26.7%. If its net sales equal 6,128, the firm\\'s SGA expenses equal ________.

A. 448

B. 521

C. 496

D. 357

Correct Answer: B

Gross Profit Margin = Gross Profit/Net sales and Operating Profit Margin = Operating Profit/Net sales. Therefore, Gross Profit = 6,128*0.352 = 2,157 and Operating Profit = 6,128*0.267 = 1,636. Now, Operating profit = income before interest, depreciation and taxes (EBDIT)= Gross Profit - Sales and General Expenses, so 2,157 - 1,636 = 521.