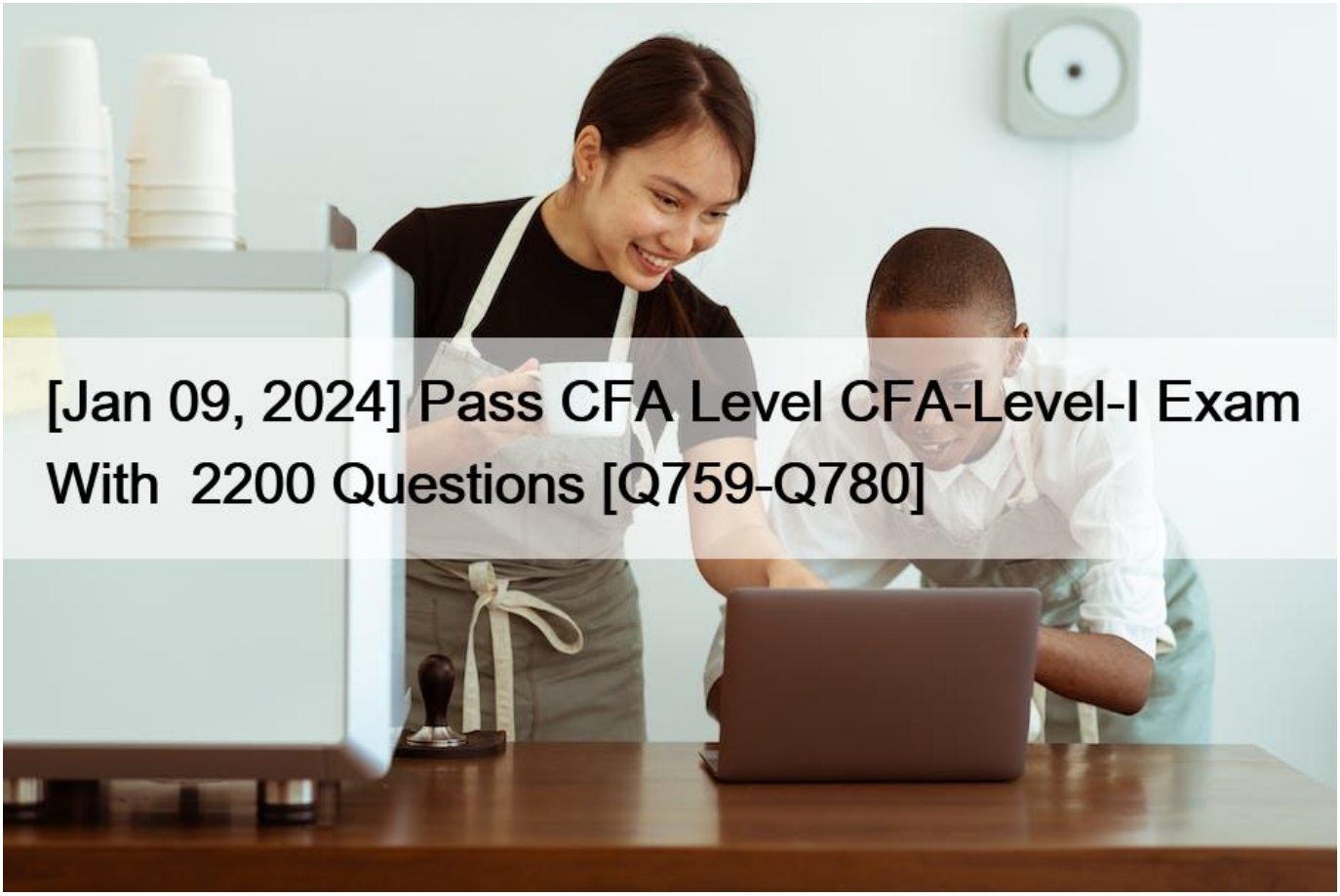
[Jan 09, 2024 Pass CFA Level CFA-Level-I Exam With 2200 Questions [Q759-Q780



[Jan 09, 2024] Pass CFA Level CFA-Level-I Exam With 2200 Questions
Ultimate Guide to Prepare Free CFA CFA-Level-I Exam Questions and Answer

CFA Level I Exam is the first of three exams in the CFA designation program, administered by the CFA Institute. CFA-Level-I exam is designed to test the candidate's knowledge and understanding of the fundamental concepts and tools used in the investment industry. It covers a wide range of topics, including economics, financial reporting and analysis, ethics, quantitative methods, corporate finance, equity investments, fixed income, derivatives, and alternative investments.

QUESTION 759

The value of an option-free, 10-year, 7.5% coupon bond is $1,035. A bond indenture specifies terms of the put privilege, the put privilege having a value of $12.25. The value of the putable bond is:
* $1,047.25
* $1,035
* $1,022.75

The value of a putable bond is equal to the value of a similarly defined option-free bond plus the value of the put option.

QUESTION 760

If a security just experienced a double bottom pattern, its price is then expected to:
* go up.
* go down.
* either go up or go down.
Technicians use the double bottom to predict a change from a downtrend to an uptrend in security prices. For double bottoms, the price is expected to appreciate above the peak between the two bottoms by at least the distance from the valley lows to the peak.

QUESTION 761

Which of the following statements characterizes an operating lease?
* The lessor records depreciation expense and lease revenue.
* The lessee records amortization expense and interest expense.
* The lessor transfers title of the leased property to the lessee only for the duration of the lease term.
For operating leases the lessee records rent expense and the lessor would record the related revenue and would amortize the asset.

QUESTION 762

A sample of 5 persons with hypertension underwent a special blood-pressure-reducing treatment program which resulted in the following values giving reduction in systolic blood pressure for these persons (i.e. the scores give SBP after treatment – SBP before treatment): -5, 10, 20, 5, 10.

Suppose for a second sample of 5 persons, the sample mean is 10, and the sample variance is 25. Then which of the following statements about this second sample is not correct?
* A person with a SBP reduction of -5 units is 3 standard deviations below the sample mean.
* The sum of the squared deviations of SBP reduction scores from the sample mean, i.e.

2

SUM((X – XBAR)) = 100.
* Any SBP reduction score between 0 and 20 is within one standard deviation of the sample mean.
10 +- SQRT(25) is the interval from 5 to 15.

QUESTION 763

Evans Company owns 4.5 million shares of stock of Frazier Company classified as available-for-sale.

During 2003, the fair value of those shares increased by $9 million. What effect did this increase have on

Evans’ 2003 financial statements?
* Net assets increased.
* Net income increased.
* Shareholders’ equity decreased.
As “available for sale” securities they are reported at fair value, with unrealized gains and losses reported in shareholders’ equity.

QUESTION 764

Cash payments for interest 15 Retirement of common stock 38 Cash payments to merchandise suppliers 85 Sale of equipment 35 Payment of dividends 38 Purchase of land 10 Cash payment for salaries 38 Cash collections from customers 271 Purchase of equipment 45

What are cash flows from investing activities?
* -20
* 0
* 70
Cash flows from investing activities = Sale of equipment – purchase of land – purchase of equipment(35 – 10 – 45) = -20

QUESTION 765

If your discount rate is 8% per year, calculate the present value of the following cash flows:

End of year 1: $2,200

End of year 2: $3,000

End of year 3: $7,300.
* $10,404.
* $11,239.
* $9,876.
2 3

Explanation: The present value = 2,200/1.08 + 3,000/(1.08) + 7,300/(1.08) = 10,404.

QUESTION 766

On a survey questionnaire, students were asked to indicate their class rank in college. If there were only four choices from which to choose, which measure(s) of central tendency would be appropriate to use for the data generated by that questionnaire item?
* Mean and mode
* Mode and median
* Mean and median
We can discard the mean since it is not appropriate here. If we want to find out which class has the most students or where the students are most frequently ranked, then the mode and median should be used.

QUESTION 767

If nonrecurring charges are really prior year expenses taken too late, then the practice of ignoring nonrecurring charges and focusing on recurring operating income results in
* an underestimation of the firm’s assets.
* an overestimation of the firm’s earnings trend.
* an overestimation of the firm’s assets.
If nonrecurring charges are really prior year expenses taken too late, then the practice of ignoring nonrecurring charges and focusing on recurring operating income results in an overestimation of the firm’s earnings trend.

QUESTION 768

A futures contract whose underlying good is U.S. Treasury bills would be classified as a(n) _____ contract.
* Interest-earning Asset
* Foreign Currency
* Index
U.S. T-bills are interest-earning assets, and their futures contracts are Interest-earning Asset contracts.

QUESTION 769

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding at the beginning of the year:

6.125% convertible bond, convertible into 33 shares of common stock. Issue price $1,000, 100

*

bonds outstanding.

6.25% convertible preferred stock, $100 par, 2,315 shares outstanding. Convertible into 3.3

*

shares of common stock, Issue price $100

8% convertible preferred stock, $100 par, 2,572 shares outstanding. Convertible into 5 common

*

shares, Issue price $80

9,986 warrants are outstanding with an exercise price of $38. Each warrant is convertible into 1

*

share of common.

Average market price of common is $52.00 per share. Common shares outstanding at the

*

beginning of the year were 40,045.

Net Income for the period was $200,000, while the tax rate was 40%.

*

How many new shares had to be issued to facilitate warrant conversion?
* 2689
* 7297
* 9986
9986 x $38 = $379,468 $379,468/$52 = 7297 common shares 9986 – 7297 = 2689 new common shares

QUESTION 770

An analyst has gathered the following information about a company:

Balance Sheet

Assets Cash 100 Accounts Receivable 750 Marketable Securities 300 Inventory 850 Property, Plant &

Equip 900 Accumulated Depreciation (150) Total Assets 2750

Liabilities and Equity Accounts Payable 300 Short-Term Debt 130 Long-Term Debt 700 Common Equity

1 000 Retained Earnings 620 Total Liab. and Stockholder’s equity 2750

Income Statement

Sales 1500 COGS 1100 Gross Profit 400 SG&A 150 Operating Profit 250 Interest Expense 25 Taxes 75

Net Income 150

What is the inventory turnover ratio?
* 1.29.
* 1.59.
* 0.77.
Inventory turnover = 1100(COGS)/850(inventory) = 1.29

QUESTION 771

Which of the following steps in process to sell a stock short are FALSE?
* The short seller gets the proceeds of the short sell.
* The seller must inform their broker that the order is a short sale before completing the transaction.
* The seller must borrow the securities from a broker before selling them, and must return the securities at the request of the lender.
Short sellers DO NOT get the proceeds of the short sell.

QUESTION 772

The probability that events A and B do not occur simultaneously equals 0.77. The probability of neither A nor B occurring equals 0.38. If P(A) equals 0.26, the probability of B occurring equals _____.
* 0.43
* 0.59
* 0.62
The probability that events A and B do not occur simultaneously equals one minus the probability that events A and B occur

The probability that events A and B do not occur simultaneously equals one minus the probability that events A and B occur simultaneously. Thus, P(A and B) = 1 – 0.77 = 0.23.

The probability of neither A nor B occurring equals one minus the probability of either A or B occurring.

Thus, P(A or B) = 1 – 0.38 = 0.62.

Now, P(A or B) = P(A) + P(B) – P(A and B). Therefore, P(B) = P(A or B) – P(A) + P(A and B) = 0.62 – 0.26 +

0 .23 = 0.59.

QUESTION 773

Which statement about portfolio diversification is correct?
* Proper diversification reduces the portfolio’s expected return because it can reduce or eliminate a portfolio’s systematic risk.
* As more securities are added to a portfolio, total risk typically would be expected to fall at a decreasing rate.
* The risk-reducing benefits of diversification do not occur meaningfully until at least 30 individual securities are included in the portfolio.

QUESTION 774

A cumulative frequency distribution on days absent during a calendar year by employees of a manufacturing company is shown below.

Days Absent	Cumulative Number of Employees
0 - 2	60
3 - 5	31
6 - 8	14
9 - 11	6
12 - 14	2

How many employees were absent more than five days?
* 22
* 31
* 14

The cumulative number for class 6-8 will give us the number of people absent more than five days; 14.

QUESTION 775

At the end of 2010, a firm changes its depreciation method from the double-declining balance method to straight line. The firm only has one asset, a building that cost $4,000,000 and has a salvage value of $200,000 after a life of 20 years. The tax rate is 20%. The asset was purchased in January of

2 008. What will be the cumulative effect of the change on the 2010 depreciation resulting from the years

2 008 and 2009?
* $210,000 lower
* $380,000 lower
* $190,000 lower

Depreciation under the straight-line method would be $190,000 each year [($4,000,000 –

$ 200,000)/20]. Depreciation under the double-declining balance method would be $400,000 in the first year. The double-declining rate is 10% [(100%/20) x 2]. Applying the rate of 10% to the beginning book value of $4,000,000 = $400,000 for the first year. The second year will be the beginning book value of

$ 3,600,000 ($4,000,000 – $400,000) x .1 = $360,000. The difference between $400,000 and $190,000, of

$ 210,000, will be the change in the depreciation expense for the year 2008. The second year for the straight line is $190,000. The difference between $360,000 and $190,000, of $170,000, will be the change in the depreciation expense for the year 2009. The cumulative effect of the change for the year 2010 will be $210,000 + $170,000 = $380,000 lower.

QUESTION 776

Which of the following best explains why the return on assets (ROA) ratio may show distorted increases over time?
* Net income is affected by inflation and total assets are getting older.
* A firm acquires many new assets each period.
* A firm may use replacement cost valuation for plant assets, and repairs and maintenance expense changes each year to correspond to asset replacement costs.

As the assets age, the net asset book value decreases and the return on assets ratio increases. This return ratio does not reflect economic substance, however, since income is measured in current period dollars while the denominator (assets) is measured using historical information rather than replacement information.

QUESTION 777

Trevor hears from his wife who has just spoken to the wife of the CEO of Company QAS, that they are about to fire the CFO of QAS. Trevor immediately sells his shares in QAS. In terms of The Standards of

Professional Conduct per Standard II(A) Material Non-Public Information, has Trevor violated the

Standard?
* Yes, because the information was misappropriated.
* Yes, because the information is likely to cause a large price movement in the company’s securities.
* Yes, because he used material non-public information.

The information is material and non-public and Trevor should not act on it.

QUESTION 778

An options investor purchases one foreign currency call option on Swiss francs (SF). The call has the following characteristics:

Type of option: call option Underlying asset: SF62,500 (62,500 Swiss francs) Exercise price: $0.61 per SF

Premium: $0.003 per SF Expiration date: December

By taking a LONG position in this call option, the investor has:
* obligated himself to buy SF62,500 and pay $38,125 during the specified time period (expiration date in

December)
* purchased the right to decide whether to buy SF62,500 and pay $38,125 during the specified time period (expiration date in December)
* purchased the right to decide whether to sell SF62,500 and receive $38,125 during the specified time period (expiration date in

December)
A LONG call gives the owner the right to decide to buy. The exercise price is

(1)(62,500)(0.61) = 38,125.

QUESTION 779

An analyst has collected the following data about a firm:

Receivables turnover = 10 times Inventory turnover = 8 times Payables turnover = 12 times

What is the average receivables collection period, the average inventory processing period, and the average payables payment period respectively? (Assume 360 days in a year)
* 36 days: 45 days: 30 days.
* 45 days: 36 days: 30 days.
* 33 days: 30 days: 20 days.
Receivables collection period = 360/10 = 36 days Inventory processing period = 360/8 = 45 days Payables payment period = 360/12 = 30 days

QUESTION 780

Which of the following statements regarding duration and a bond’s price volatility is (are) correct?

I). Duration is a linear estimate of a bond’s price change given an expected change in market interest rates.

II). Duration actually underestimates a bond’s price increase and decrease given an expected change in market interest rates.

III). The combined effect of a bond’s duration and convexity will be greater than a bond’s expected change related to duration alone.

IV). Convexity is an attempt to mitigate the error included with the duration measure.

A I and II

B. I and IV.

C. III and IV.
B

Explanation: Duration is a linear estimate and the application of convexity is an attempt to remedy the errors related to duration. Duration underestimates the bond price increase when market interest rates decline and overestimates the bond price decline when market interest rates rise. Convexity, which can be either positive or negative, may add or reduce the effective change suggested by duration alone.

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