

# CFA-LEVEL-1<sup>Q&As</sup>

CFA Level I Chartered Financial Analyst

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**QUESTION 1**

Birch Ltd. had net income for the year of \$101,504 and a simple capital structure consisting of the following common shares outstanding:

Months Outstanding Number of Shares

January - February 24,000 March - June 29,400 July - November 36,000 December 35,040

Birch's earnings per share (rounded to the nearest cent) were \_\_\_\_\_.

- A. \$2.90
- B. \$3.45
- C. \$4.23
- D. \$3.20
- E. \$3.25

Correct Answer: D

EPS equals net income divided by the weighted average number of shares outstanding and is \$3.20 (\$101,504 / 31,720). Following is the calculation for the weighted average number of shares outstanding:

$24,000 \times (2 / 12) = 4,000$   $29,400 \times (4 / 12) = 9,800$   $36,000 \times (5 / 12) = 15,000$   $35,040 \times (1 / 12) = 2,920$  weighted average 31,720

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**QUESTION 2**

What monthly payment, beginning next month, would pay off a debt of \$1,000 over 15 months, if the interest rate on the debt is 18% per year, compounded monthly?

- A. \$5.12
- B. \$66.67
- C. \$74.94
- D. \$68.92
- E. \$76.51

Correct Answer: C

On the BAII Plus, press 15 N, 18 divide 12 = I/Y, 1000 PV, 0 FV, CPT PMT. On the HP12C, press 15 N, 18 ENTER 12 divide i, 1000 PV, 0 FV, PMT. Note that the answer will be displayed as a negative number. Make sure the BAII Plus has the value of P/Y set to 1.

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**QUESTION 3**

The correlation between the capital market returns of Germany and Japan depend on all the following factors EXCEPT:

- A. international trading patterns.
- B. economic growth rate.
- C. fiscal and monetary policy.
- D. geographical separation.

Correct Answer: D

Geographical separation has not been identified as a factor that affects correlations. The other three choices impact the capital market returns and correlations of the respective countries.

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#### QUESTION 4

Accounting rules specify that interest must be capitalized for assets that are

- A. not being used in the earning activities of the enterprise and not undergoing the activities necessary to get them ready for use.
- B. routinely produced.
- C. being constructed or otherwise being produced as discrete projects for an enterprise's own use.
- D. none of these answers.
- E. in use or ready for their intended use in the earning activities of the enterprise.

Correct Answer: C

Interest costs must be capitalized only for assets constructed for internal use, or for sale or lease as discrete projects.

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#### QUESTION 5

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 =  $500/0.12 = 4,167$