

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

CFA Level I Chartered Financial Analyst

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**QUESTION 1**

Dorrie James, a financial analyst with consulting firm Brown, Ketchuppe and Company, is trying to determine the earnings per share (EPS) figure for Floweration.com. Assume the following information: Sales: \$4,500,000 Fixed costs: \$2,000,000 Variable costs: \$1,200,000 Interest expense: \$40,000 Tax rate: 35% Weighted Average Cost of Capital: 12.25% Beta coefficient: 1.25 Common shares outstanding: 4,755,000 Using this information, what are the EPS for Floweration.com?

- A. \$0.1492
- B. \$0.1722
- C. \$0.1676
- D. \$0.2440
- E. \$0.2360
- F. The answer cannot be calculated from the information provided.

Correct Answer: B

The EPS figure is perhaps the single most popular term in the field of conventional equity investments. Any glance into financial media and business periodicals will undoubtedly uncover numerous instances in which the EPS figure is cited. While quite popular and useful, many individuals do not understand the mechanics behind the EPS calculation, and an investigation into the components of EPS is a valuable learning experience. The EPS calculation is found by the following equation:  $\{EPS = [(Sales - Fixed Costs - Variable Costs - Interest Expense)(1 - Tax Rate)] / [\# \text{ of Common Shares Outstanding}]\}$  Additionally, the EPS figure can be found by:  $\{EPS = [(EBIT - Interest Expense)(1 - Tax Rate) / \# \text{ of Common Shares Outstanding}]\}$  Incorporating the given information into the first EPS equation will yield the following:  $\{EPS = [(\$4,500,000 - \$2,000,000 - \$1,200,000 - \$40,000)(1 - .35)] / 4,755,000\} = \$0.1722$

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**QUESTION 2**

When investors are bullish about the stock market,

- A. money market funds tend to lose popularity.
- B. money market funds tend to grow in popularity.
- C. money market fund volatility decreases.
- D. returns on money market funds tend to decrease.

Correct Answer: A

When investors are bullish about the stock market, they tend to withdraw funds from money market funds in order to invest in stocks or stock funds. When investors are cautious about the stock market, they tend to shift funds from stocks into safer money market funds.

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**QUESTION 3**

When formulating an investment policy for a client, all of the following fall under "investor constraints," except \_\_\_\_\_.

- A. liquidity needs
- B. regulatory and legal circumstances
- C. risk tolerance
- D. tax considerations
- E. expected cash flows
- F. investable funds
- G. investor preferences, circumstances and unique needs
- H. none of these answers

Correct Answer: C

Risk tolerance is considered under "investor objectives."

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#### QUESTION 4

Which of the following would be a debit in the U.S. balance of payments?

- A. a short-term loan extended to a Japanese manufacturer by a U.S. bank
- B. the purchase of a Japanese car by an American
- C. the purchase of air service from a U.S. airline by a Japanese traveler
- D. the purchase of U.S. grain by a Japanese bakery

Correct Answer: B

Since the purchase of a car from a Japanese firm by an American increases the supply of U.S. dollars on the foreign exchange market, this transaction is accounted for as a debit on the U.S. current account.

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#### QUESTION 5

A sample of single persons receiving social security payments revealed these monthly benefits: \$826, \$699, \$1,087, \$880, \$839 and \$965. How many observations are below the median?

- A. 1
- B. 3
- C. 2
- D. 0

E. None of these answers

Correct Answer: B

Order the sample: 699, 826, 839, 880, 965, 1087. The median is somewhere between 839 and 880. So there are three observations below the median.

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