

Question block created by wizard

You have 180 minutes to complete this session.

1. Jeffrey Jones passed the Level I CFA examination in 1997 and the Level II examination in 2009. He is not currently enrolled for the Level III examination. According to the CFA Institute Standards of Professional Conduct, which of the following is the *most* appropriate way for Jones to refer to his participation in the CFA Program?
 - A. Jeffrey Jones, CFA (expected 2014)
 - B. Candidate in the CFA Institute CFA Program
 - C. Passed Level II of the CFA examination in 2009

2. Ri Lin, CFA, is a portfolio manager with Dynasty Investment Management. Lin is performing research on Titan Mining for potential inclusion in his fund. Management at Titan is interested in having a well-known fund manager such as Lin as a shareholder. Titan pays for Lin to fly to a company retreat in Tokyo, where a brief introductory meeting is followed by attendance at a sporting event and then dinner at one of the city's top restaurants. Lin participates after disclosing the activities to Dynasty's compliance department. Which standard did Lin's actions *most likely* violate?
 - A. Disclosures of Conflicts
 - B. Independence and Objectivity
 - C. Diligence and Reasonable Basis

3. James Woods, CFA, is a portfolio manager at ABC Securities. Woods has reasonable grounds to believe his colleague, Sandra Clarke, a CFA Level II candidate, is engaged in unethical trading activities that may also be in violation of local securities laws. Woods is not Clarke's supervisor, and her activities do not impact Woods or any of the portfolios for which he is responsible. Based on the Code and Standards, the recommended course of action is for Woods to:
 - A. report Sandra Clarke to the appropriate governmental or regulatory organization.
 - B. not take any action because he is not directly involved.
 - C. report Sandra Clarke to ABC's trading supervisor or compliance department.

4. Albert Nyakenda, CFA, was driving to a client's office where he was expected to close a multi-million-dollar deal, when he was pulled over by a traffic policeman although he did not believe he had violated any traffic laws. When Nyakenda realized the policeman planned to wrongly ticket him for speeding, he offered to buy him "lunch" so that he could quickly get to his client's office. The lunch would cost significantly more than the ticket. The alternative was to go to the police station and file a complaint of being wrongly accused that would also involve going to court the next day to present his case. Did Nyakenda *most likely* violate the CFA Institute Code of Ethics?
 - A. Yes
 - B. No, because the cost of lunch is more than the ticket
 - C. No, because he was wrongly accused

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5. Which of the following statements is *most likely* consistent with the CFA Institute Code of Ethics? CFA Institute members and CFA candidates must:
- A. promote the integrity of and uphold the rules governing capital markets.
 - B. practice the highest level of personal and professional integrity and always act in the best interest of their employers.
 - C. maintain their professional competence and require investment professionals under their supervision to adopt the CFA Code of Ethics.
6. Li Chen is a CFA candidate and an equity research analyst at an independent research firm. She is contacted by Granite Technologies, Inc., to write an issuer-paid research report on the company to increase awareness of Granite's stock within the investment community. Which statement *best* represents how Chen should respond to this assignment request? She should:
- A. negotiate a flat fee and disclose this relationship in her report.
 - B. accept long-term warrants on Granite's stock in lieu of any cash compensation.
 - C. decline to write the report because doing so would compromise her independence.
7. Miranda Grafton, CFA, purchased a large block of stock at varying prices during the trading session. The stock realized a significant gain in value before the close of the trading day, so Grafton reviewed her purchase prices to determine what prices should be assigned to each specific account. According to the *Standards of Practice Handbook*, Grafton's *least* appropriate action is to allocate the execution prices:
- A. across the participating client accounts pro rata on the basis of account size.
 - B. across the participating client accounts at the same execution price.
 - C. on a first-in, first-out basis with consideration of bundling orders for efficiency.
8. Amanda Covington, CFA, works for McJan Investment Management. McJan employees must receive prior clearance of their personal investments in accordance with McJan's compliance procedures. To obtain prior clearance, McJan employees must provide a written request identifying the security, the quantity of the security to be purchased, and the name of the broker through which the transaction will be made. Precleared transactions are approved only for that trading day. As indicated below, Covington received prior clearance.

Security	Quantity	Broker	Prior Clearance
A	100	Easy Trade	Yes
B	150	Easy Trade	Yes

Two days after she received prior clearance, the price of Stock B decreased, so Covington decided to purchase 250 shares of Stock B only. In her decision to purchase 250 shares of Stock B only, did Covington violate any CFA Institute Standards of Professional Conduct?

- A. Yes, relating to diligence and reasonable basis
- B. No
- C. Yes, relating to her employer's compliance procedures

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9. Delaney O'Keefe, a CFA candidate, is a portfolio manager at Bahati Management Company. The company is considering investing offshore for the first time, particularly in North America, on behalf of its clientele, who are all high-net-worth individuals. O'Keefe does not have experience in offshore investments, so she hires Mark Carlson, CFA, of Carlson Consulting, on the sole basis that he is a CFA charterholder, to undertake due diligence exercises on the top 10 portfolio managers in North America, ranked by assets under management (AUM). To avoid violating any Code and Standards, O'Keefe should *most likely* undertake:
- A. the due diligence exercise on the top 10 asset managers herself.
 - B. a sampling of the suitability of North America for her clients.
 - C. a due diligence exercise on Mark Carlson and Carlson Consulting.
10. Marc Davidson, CFA, works as a trust specialist for Integrity Financial. Davidson starts a part-time consulting business providing advice to trustees for a fee. He conducts this business on his own time and therefore did not notify Integrity Financial of his consulting. Davidson asks his assistant to compile a list of Integrity's clients and their contact information. The following month, Davidson is offered a similar role at Integrity's largest competitor, Legacy Trust Services, Inc. After he begins working at Legacy, his new manager arranges for him to meet with a number of prospective clients, many of whom are clients of Integrity. After meeting with Davidson, a number of former Integrity clients decide to transfer their business to Legacy. Did Davidson's action violate the Code and Standards?
- A. No
 - B. Yes, Davidson's part-time consulting business is a violation of the Standards
 - C. Yes, both Davidson's part-time consulting business and his meetings with Integrity clients are violations of the Standards
11. David Donnigan enrolled to take the Level II CFA examination in the current year, but he did not take the exam. Donnigan advised his employer that he passed Level II. Subsequently, he registered to take the Level II exam the next year. Which CFA Institute Standards of Professional Conduct did Donnigan *least likely* violate? The standard related to:
- A. professional misconduct.
 - B. duty to employer.
 - C. referencing candidacy in the CFA Program.
12. Justin Blake, CFA, a retired portfolio manager, owns 20,000 shares of a small public company that he would like to sell because he is worried about the company's prospects. He posts messages on several internet bulletin boards. The messages read, "This stock is going up once the pending patents are released, so now is the time to buy. The stock is a buy at anything below \$3. I have done some close research on these guys." According to the *Standards of Practice Handbook*, Blake *most likely* violated the Code and Standards associated with:
- A. Integrity of Capital Markets, and Conflicts of Interest.
 - B. Integrity of Capital Markets, but not Conflicts of Interest.
 - C. neither Integrity of Capital Markets nor Conflicts of Interest.

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- 13.** The Global Investment Performance Standards *least likely* require:
- A. nondiscretionary portfolios to be included in composites.
 - B. composites to be defined according to similar investment objectives and/or strategies.
 - C. non-fee-paying portfolios to be excluded in the returns of appropriate composites.
- 14.** Lawrence Hall, CFA, and Nancy Bishop, CFA, began a joint research report on Stamper Corporation. Bishop visited Stamper's corporate headquarters for several days and met with all company officers. Prior to the completion of the report, Bishop was reassigned to another project. Hall used his and Bishop's research to write the report but did not include Bishop's name on the report, because he did not agree with and changed Bishop's conclusion included in the final report. According to the *Standards of Practice Handbook*, did Hall *most likely* violate any CFA Institute Standards of Professional Conduct?
- A. Yes, with respect to misrepresentation
 - B. No
 - C. Yes, with respect to diligence and reasonable basis
- 15.** Several years ago, Leo Peek, CFA, co-founded an investment club. The club is fully invested but has not actively traded its account for at least a year and does not plan to resume active trading of the account. Peek's employer requires an annual disclosure of employee stock ownership. Peek discloses all of his personal trading accounts but does not disclose his holdings in the investment club. Peek's actions are *least likely* to be a violation of which of the CFA Institute Standards of Professional Conduct?
- A. Misrepresentation
 - B. Transaction priority
 - C. Conflicts of interest
- 16.** Which of the following is *least likely* a requirement of the GIPS standards? Firms are required to:
- A. have their performance records verified by an independent third party.
 - B. present a minimum of five years of annual investment performance compliant with the GIPS standards.
 - C. include all discretionary, fee-paying portfolios in at least one composite.

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17. Jimmy Lan, CFA, is a technology analyst at Pacific Securities, Inc. and is a leading authority on Japanese technology companies. Lan's clients include many leading Japanese equity managers. While still employed at Pacific, Lan makes plans during the weekends to start a new company, JL Consulting. His plans consist of contracting office space, interviewing potential employees, and purchasing office equipment. Once he feels ready to launch his new firm, Lan provides Pacific with his resignation notice. After leaving, Lan constructs earnings models of the technology companies he previously covered, using the knowledge and experience gained while at Pacific. He then contacts former clients by using public sources and encourages them to become clients of his new firm. Are Lan's actions in compliance with the Code and Standards?
- A. Yes, assuming he is not in breach of any non-compete agreement signed while at Pacific Securities
 - B. No, because he is prohibited from engaging in activities related to starting his new business while still employed by Pacific Securities
 - C. No, because the names of former clients, modeling skills, and experience gained by Lan are confidential information of Pacific Securities
18. Alexander Newton, CFA, is the chief compliance officer for Mills Investment Limited. Newton institutes a new policy requiring the pro rata distribution of new security issues to all established discretionary accounts for which the new issues are appropriate. The policy also provides for the exclusion of newly established discretionary accounts from the distribution until they have reached their one-month anniversary date. This policy is disclosed to all existing and potential clients. Did Newton *most likely* violate any CFA Institute Standards of Professional Conduct?
- A. No, because the allocation policy is not inequitable under the standards
 - B. Yes
 - C. No, because the policy has been adequately disclosed to all existing and potential clients
19. Which of the following statements is the *most* accurate description concerning the internal rate of return (IRR) method? IRR:
- A. assumes that all cash flows from a project will be reinvested at the computed IRR.
 - B. is the preferred method for evaluating mutually exclusive projects.
 - C. is sensitive to changes in the firm's weighted average cost of capital.
20. An analyst gathered the following information about a company that expects to fund its capital budget without issuing any additional shares of common stock

Source of Capital	Capital Structure Proportion	Marginal After-Tax Cost
Long-term debt	50%	6%
Preferred stock	10%	10%
Common equity	40%	15%

If no significant size or timing differences exist among the project(s) and both projects have the same risk as the company's existing projects, which project(s) should be accepted?

IRR of Two Independent Projects	
Warehouse project	8%
Equipment project	12%

- A. Both projects
- B. The equipment project only
- C. The warehouse project only

21. Which of the following transactions is *most likely* to affect a company's financial leverage ratio?

- A. An increase in cash dividends paid
- B. Payment of a 9% stock dividend
- C. Completion of a previously announced 1-for-20 reverse stock split

22. A company that wants to determine its cost of equity gathers the following information

Rate of return on 3-month Treasury bills	3.0%
Rate of return on 10-year Treasury bonds	3.5%
Market risk premium	6.0%
The company's equity beta	1.6
Dividend growth rate	8.0%
Corporate tax rate	35%

Using the capital asset pricing model (CAPM) approach, the cost of equity (%) for the company is closest to:

- A. 13.1%.
- B. 12.6%.
- C. 7.5%.

23. A firm's before-tax costs of debt, preferred stock, and equity are 12%, 17%, and 20% respectively. Assuming equal funding from each source and a marginal tax rate of 40%, the weighted average cost of capital (%) is *closest* to:

- A. 13.9%.
- B. 9.8%.
- C. 14.7%.

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24. A class of noncallable, nonconvertible preferred stock was issued at \$45.00 per share with a dividend of \$5.25. The preferred stock is now trading at \$60.00 per share. Earnings of the company are growing at 3.00%. The cost of preferred stock is *closest* to:

- A. 5.8%.
- B. 8.8%.
- C. 11.7%.

25. Which of the following sources of short-term financing is *most likely* used by smaller companies?

- A. Uncommitted lines
- B. Collateralized loans
- C. Commercial paper

26. A firm with a marginal tax rate of 40% has a weighted average cost of capital of 7.11%. The before-tax cost of debt is 6%, and the cost of equity is 9%. The weight of equity in the firm's capital structure is *closest* to:

- A. 79%.
- B. 37%.
- C. 65%.

27. The following data apply to two companies producing similar products.

	Company A	Company B
Number of units produced and sold	1 million	1 million
Sale price per unit	\$100	\$100
Variable cost per unit	\$60	\$50
Fixed operating costs	\$20 million	\$40 million
Fixed financing expenses	\$10 million	\$5 million
Degree of operating leverage (DOL)	?	5.0
Degree of financial leverage (DFL)	2.0	2.0

Compared with Company B, Company A has:

- A. a higher degree of total leverage.
- B. a lower sensitivity of operating income to changes in units sold.
- C. the same sensitivity of operating income to changes in net income.

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- 28.** A publicly listed company has a 12-person board of directors. The chairman, who is the past chief executive officer of the company, was named chairman on his retirement date four years ago. Each member is elected for a two-year term and one-half of the positions stand for election every year. The three members of the audit committee are all outside directors and have relevant financial and accounting experience. Which of the following actions would provide the *greatest* improvement in the corporate governance of this company?
- A. All members of the board of directors should stand for election every year.
 - B. The company's vice president of finance should be a member of the audit committee.
 - C. The chairman of the board should be an independent director.
- 29.** Which of the following is *least likely* to be a component of a developing country's equity premium?
- A. Sovereign yield spread
 - B. Annualized standard deviation of the developing country's equity index
 - C. Annualized standard deviation of the sovereign bond market in terms of the developing country's currency
- 30.** A company extends its trade credit terms by four days to all its credit customers. The *most likely* effect of this change to the company's credit customers is a four-day:
- A. decrease in the company's net operating cycle.
 - B. decrease in the company's operating cycle.
 - C. increase in the company's operating cycle.
- 31.** In order to maintain an adequate net daily cash position, a company is *least likely* to:
- A. forecast depreciation and accruals.
 - B. predict the business cycles and seasonal effects.
 - C. monitor access to borrowing facilities.
- 32.** The following information is available for a company and the industry in which it competes:

	Company	Industry
Accounts receivable turnover	5.6 times	6.5 times
Inventory turnover	4.2 times	4.0 times
Number of days of payables	28 days	36 days
Operating cycle	?	147 days
Cash conversion cycle	124 days	?

Relative to the industry, the company's operating cycle:

- A. is shorter, but its cash conversion cycle is longer.
- B. and cash conversion cycle are both longer.
- C. is longer, but its cash conversion cycle is shorter.

33. The following data apply to two comparable companies that are in direct competition.

	Company A	Company B
Times interest earned ratio	2.50	2.50
Return on equity (ROE)	10.13%	16.88%
Return on assets (ROA)	6.75%	11.25%
Asset turnover	1.50	2.50

Which of the following statements is *most* accurate?

- A. Both companies have the same amount of interest expense.
- B. Company A has a higher degree of financial leverage than Company B.
- C. Company A has a lower net profit margin.

34. Which of the following situations is the *least likely* reason why the marginal cost of capital schedule for a company rises as additional funds are raised?

- A. The company deviates from its target capital structure because of the economies of scale associated with flotation costs and market conditions.
- B. The cost of additional funds from various sources rises as higher levels of financing are achieved.
- C. The company seeks to issue less senior debt because it violates the debt incurrence test of an existing debt covenant.

35. Which of the following statements describes the *most* appropriate treatment of cash flows in capital budgeting?

- A. A project is evaluated using its incremental cash flows on an after-tax basis.
- B. Interest costs are included in the project's cash flows to reflect financing costs.
- C. Sunk costs and externalities should not be included in the cash flow estimates.

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- 36.** A company is deciding to repurchase 5 million shares of stock that has a current price of \$49.50. Below is the forecasted information of shares available for purchase. Which of the following repurchase methods will *most likely* result in the average repurchased cost being \$49.80?

Price	Number of Shares Available for Purchase (in millions)
\$50.00	9.00
\$49.90	5.00
\$49.80	3.00
\$49.70	1.00
\$49.60	0.50
\$49.50	0.50

- A. Dutch auction
 - B. Open market repurchase
 - C. Fixed-price tender offer
- 37.** The post-audit performed as part of the capital budgeting process is *least likely* to include the:
- A. provision of future investment ideas.
 - B. indication of systematic errors.
 - C. rescheduling and prioritizing of projects.
- 38.** If a central bank reduces the money supply, this move will *most likely* lead to a:
- A. rise in nominal interest rates and a decline in aggregate price level.
 - B. decline in nominal interest rates and a rise in aggregate price level.
 - C. rise in nominal interest rates and a rise in aggregate price level.
- 39.** With respect to the relationship between output and costs in the short run, a decline in the marginal cost per unit *most likely* occurs at what level of production?
- A. Low output
 - B. High output
 - C. Profit-maximizing output

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40. Assume that the nominal spot exchange rate (USD/EUR) increases by 7.5%, the eurozone price level decreases by 4%, and the U.S. price level increases by 2.5%. The change in the real exchange rate (%) is *closest* to:

A. 14.8%.
B. 0.7%.
C. -6.3%.

41. If a price cut of a product increases total revenue, demand is *best* described as:

A. inelastic.
B. unit elastic.
C. elastic.

42. Assume that an economy is composed of two products, X and Y, with the following details:

Product	Quantity Produced in 2012	Quantity Produced in 2013	Product Unit Prices in 2012	Product Unit Prices in 2013
X	351.0	352.0	13.3	13.8
Y	179.0	182.5	unknown	11.1

Assuming 2012 is the base year for measuring GDP and the GDP deflator for the economy in 2013 is 102.4, the unit price of Y in 2012 is *closest* to:

A. 10.8.
B. 11.2.
C. 11.5.

43. The unemployment rate is *best* described as the ratio of unemployed to:

A. labor force minus frictionally unemployed.
B. total population of people who are of working age.
C. labor force.

44. During the last month, a food company located in the United States had the following transactions:

Transaction	Amount (US\$ millions)
Bought raw material from Indonesia	50.0

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Sold food products to France	65.0
Received royalty fees from its branch in the United Kingdom	0.5
Donated to a charitable institution in Africa	0.1
Borrowed from a bank in Singapore	2.0
Paid legal fees to its German legal consultant company	1.2
Received interest coupon from its investment in Eurobonds issued in Luxembourg	0.8

These transactions will *most likely* increase the U.S. current account by:

- A. \$17.0 million.
- B. \$15.0 million.
- C. \$14.5 million.

45. A market structure characterized by homogeneous/standardized product differentiation is *best* described as:

- A. monopolistic competition.
- B. perfect competition and oligopoly.
- C. monopoly.

46. Assume the following consumption basket and prices over 2011 and 2012 (in U.S. dollars):

	2011		2012	
Item	Price	Quantity	Price	Quantity
Meat	\$12/kg	30 kg	\$12.2/kg	35 kg
Rice	\$1/kg	55 kg	\$1.1/kg	50 kg
Milk	\$1.5/liter	65 liters	\$1.6/liter	65 liters
Fuel	\$1/liter	95 liters	\$1.2/liter	85 liters

The Fisher Index is *closest* to:

- A. 105.4.
- B. 105.8.
- C. 106.1.

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47. The *most likely* initial (short-run) effect of demand-pull inflation is an increase in:

- A. employee wages.
- B. finished good prices.
- C. commodity prices.

48. A research report produced by a dealer includes the following exchange rates:

	Spot Rate	Expected Spot Rate in One Year
USD/EUR	1.396	1.386
USD/CAD	1.011	1.030
EUR/GBP	1.285	1.279

The *most* accurate calculation of the expected appreciation (%) of the Canadian dollar (CAD) relative to the British pound (GBP) is:

- A. 2.99%
- B. 0.7%.
- C. -2.04%

49. Which of the following is *least likely* to affect the growth of the economy?

- A. The workforce attending an average of 20 hours of training per year
- B. An increase in the labor force that is offset by a decrease in the average hours worked per worker, making the total hours worked unchanged
- C. When capital depreciation exceeds gross investment within the economy

50. Assume economic activity is accelerating, inflation is increasing modestly, and unemployment is low. The economy is *most likely* in which phase of the business cycle?

- A. Peak
- B. Late expansion
- C. Early expansion

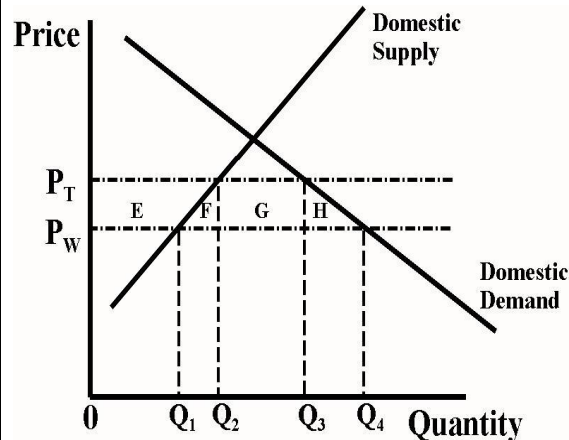
51. A power generation company is a monopoly that has very high barriers to entry. The quantity demand (Q_D) for its product is $Q_D = 800 - 0.25 \times P$ (where P is price). The slope of the marginal revenue curve is *closest* to:

- A. -8.00.
- B. -0.25.
- C. -4.00.

52.

The diagram to the right shows the domestic demand and supply curves for a country which imports a commodity, where P_W is its world price and P_T is its domestic price after the imposition of a tariff.

The reduction in the net national welfare of this country as a result of the tariff is best described by the area(s):



- A. E.
- B. G.
- C. F+H.

53. Which of the following is the *least likely* outcome when a monopolist adopts first-degree price discrimination because of customers' differing demand elasticities?

- A. The monopolist shares the total surplus with consumers.
- B. The price for a marginal unit decreases to less than the price for other units.
- C. The output increases to the point at which price equals the marginal cost.

54. Assume that the central bank reduces the reserve requirement. The *most likely* effect will be:

- A. an increase in the money multiplier.
- B. a decrease in the money supply.
- C. a decrease in new deposits.

55. A new technology that reduces employee illness will *most likely* decrease:

- A. demand-pull inflation.
- B. cost-push inflation.
- C. cost-pull inflation.

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56. A company uses three types of labor—unskilled, semiskilled, and skilled—in the production of electronic components. The company's production plan allows for the substitution of one type of labor for another. The marginal product and compensation in U.S. dollars is as follows:

Type of Labor	Marginal Product per Day	Compensation per Day (US\$)
Unskilled	200 units	105
Semiskilled	300 units	160
Skilled	500 units	270

Assuming that the compensation of the unskilled labor increases by 4%, what labor type should the company *most likely* hire when expanding output?

- A. Semiskilled
- B. Skilled
- C. Unskilled

57. Assume the following:

An individual consumer's demand for tea		$Q_t^d = 1,800 - 40P_t + 0.5I + 150P_c$
Seller's supply of tea		$Q_t^s = -516 + 350P_t - 120W$
Legend and Initial Values		Assumed Values
Q_t^d	Quantity of tea	
P_t	Price of tea per 100 grams	
I	Household income	£2,400
W	Hourly wage rate for labor	
P_c	Price of coffee per 100 grams	£22.4
	Equilibrium price of tea	£30.6

If the household income increases by 2.5% while P_c and W do not change, the new equilibrium quantity will be *closest* to:

- A. 5,163.
- B. 5,166.
- C. 5,136.

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- 58.** Three countries produce tables and chairs, and the output per worker per day in each country as follows:

Country	Tables	Chairs
A	60	80
B	40	60

Assume that Country C produces 10% more tables than Country B and 10% fewer chairs than Country A. Which country *most likely* has the greatest comparative advantage for producing tables? Country

- A. A
 - B. C
 - C. B
- 59.** An expansionary fiscal policy is *least likely* to include an increase in:
- A. budget deficit.
 - B. tax rates.
 - C. government expenditures.
- 60.** Under conditions of perfect competition, in the long run companies will *most likely* earn:
- A. positive accounting profit and negative economic profit.
 - B. zero accounting profit and positive economic profit.
 - C. normal profit and zero economic profit.
- 61.** If the prices of substitute resources decrease, the demand for a given resource will *most likely*:
- A. increase.
 - B. decrease.
 - C. remain unchanged.
- 62.** During the process data phase of financial statement analysis, an analyst will *most likely* develop a:
- A. statement of cash flows.
 - B. statement of purpose.
 - C. common-size balance sheet.

- 63.** A company's balance sheet shows the following values (€):

Cash	12,000
Marketable securities	3,000
Accounts receivable	16,500
Inventory	8,745
Prepaid expenses	2,305
Current liabilities	32,580

The company's cash ratio is *closest* to:

- A. 0.46.
 - B. 0.97.
 - C. 0.37.
- 64.** A company with a tax rate of 40% sold a capital asset with a net book value of \$500,000 for \$570,000 during the year. Which of the following amounts related to the asset sale will *most likely* be reported as a line item on its income statement for the year?
- A. \$570,000
 - B. \$70,000
 - C. \$42,000
- 65.** All else being equal and ignoring tax effects, compared with using the straight-line method of depreciation, the use of an accelerated method of depreciation in the early years of an asset's life would *most likely* result in a decrease in the firm's:
- A. cash flow from operations.
 - B. asset turnover ratio.
 - C. shareholders' equity.

- 66.** The following information is available about a company (\$ millions):

Year ended 31 December	2012	2011
Sales	322.8	320.1
Net income	27.2	26.8
Cash flow from operations	15.3	38.1

During 2012, the company *most likely* experienced a significant decrease in:

- A. the proportion of sales made on a cash basis.
- B. inventory, anticipating lower demand for its products in 2013.
- C. the proportion of interest-bearing debt relative to trade accounts payable.

67. According to International Financial Reporting Standards, which of the following is a condition that *must* be met for revenue recognition to occur?

- A. Costs can be reliably measured.
- B. Payment has been partially received.
- C. Goods have been delivered to the customer.

68. A company sells a product with a three-year warranty included in the price. According to IFRS, which of the following is the *most* appropriate accounting treatment for the warranty?

- A. Fully recognizing the revenue and estimated warranty expense at the time of the sale and updating the expense as indicated by experience over the life of the warranty.
- B. Fully recognizing the revenue at the time of the sale but waiting until the actual warranty costs are incurred to recognize the expense.
- C. Deferring all of the revenue and recognizing it over the life of the warranty period.

69. Which of the following is *least* consistent with the goals of accounting standards developed under the joint conceptual framework project of the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB)? Accounting standards should be:

- A. developed independently.
- B. internally consistent.
- C. principles based.

70. A company has reported annual revenue for the past five years as follows (£ millions):

2008	2009	2010	2011	2012
250,738	279,347	316,480	355,589	392,008

The company's compound annual growth rate in revenue is *closest* to:

- A. 11.8%.
- B. 9.4%.
- C. 14.1%.

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- 71.** During a period of declining prices, a company using the last-in, first-out (LIFO) inventory method instead of first-in, first-out (FIFO) method will *most likely* report a lower value for:
- A. gross profit.
 - B. cost of goods sold.
 - C. ending inventory.
- 72.** Under International Financial Reporting Standards (IFRS), the statement of comprehensive income should *most* appropriately begin with:
- A. gross revenue.
 - B. the ending total comprehensive income from the prior year.
 - C. the profit or loss from the income statement.
- 73.** An analyst has assembled the following information with respect to a production facility:

	£ thousands
Carrying amount	132
Undiscounted expected future cash flows	120
Present value of expected future cash flows	100
Fair value if sold	105
Costs to sell	1

Under IFRS, the impairment loss on this production facility (in £ thousands) will be *closest* to:

- A. 28.
- B. 27.
- C. 32.

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74. The following information is available for a company (\$):

December 31, 2011:		
	Total assets	100,000
	Net income for the year	4,000
	Dividends paid	0
	Assets are equally financed with debt and equity	
	50% of the equity comes from contributed capital	
December 31, 2012:		
	Total assets	92,000
	Net income (loss) for the year	(3,000)
	No new debt or equity issued or repurchased	

In 2012, the company *most likely*:

- A. did not pay a dividend because it incurred a loss.
- B. paid a dividend of \$5,000.
- C. paid a dividend of \$1,000.

75. The following information is available about a company (in \$ thousands).

Year	Reported Earnings	Operating Cash Flow	Accounts Receivables	Ending Inventory
2011	1,500	1,200	500	1,300
2012	1,800	1,300	1,400	1,600
2013	2,500	1,400	3,500	2,200

Which of the following would *least likely* be an accounting warning sign for this company? The relationship between reported earnings and:

- A. ending inventory.
- B. operating cash flow.
- C. accounts receivables.

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76. Company A owns 60% of Company B. Company A's consolidated income statement *most likely* includes 100% of Company A's revenues and expenses and what portion of Company B's?

- A. 0%
- B. 100%
- C. 60%

77. Which of the following events will *most likely* result in a decrease in a valuation allowance for a deferred tax asset under U.S. GAAP? A(n):

- A. reduction in tax rates
- B. extension in the tax loss carry-forward period
- C. decrease in interest rates

78. Issuance of common stock is *most* accurately classified as a(n):

- A. financing activity.
- B. investing activity.
- C. operating activity.

79. In the statement of cash flows, interest paid by a company is *most likely* included in:

- A. only the financing section under both IFRS and U.S. GAAP.
- B. either the operating or financing section under U.S. GAAP.
- C. either the operating or financing section under IFRS.

80. According to the International Financial Reporting Standards framework, which of the following qualities of financial information is *least likely* cited as one of the two fundamental characteristics that make financial information useful?

- A. Relevance
- B. Faithful representation
- C. Accrual accounting

81. The following table shows changes to the number of common shares outstanding for a company during 2012:

1 January	180,000 shares outstanding
1 June	60,000 shares issued
1 August	2-for-1 stock split
31 December	480,000 shares outstanding

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To calculate earnings per share for 2012, the company's weighted average number of shares outstanding is *closest* to:

- A. 215,000.
- B. 315,000.
- C. 430,000.

82. Under IFRS, the costs incurred in the issuance of bonds are *most likely*:

- A. expensed when incurred.
- B. included in the measurement of the bond liability.
- C. deferred as an asset and amortized on a straight-line basis.

83. The following tables present excerpts from financial statements for two merchandising companies following the format found in each of their annual reports.

Company A (US\$ millions)		Company B (¥ millions)	
Assets		Assets	
Noncurrent assets	9,640	Current assets	4,333
Current assets	2,096	Noncurrent assets	19,923
Total assets	11,736	Total assets	24,256

Which of the companies *most likely* prepares its financial statements in accordance with U.S. GAAP?

- A. Both companies
- B. Only Company A
- C. Only Company B

84. A company is buying back its common shares to offset the dilution of earnings from its stock option program. Which of the following statements *best* describes the effect on the financial statements of the amount spent to buy back the stocks? The amount spent reduces:

- A. cash from operating activities.
- B. net income.
- C. cash from financing activities.

- 85.** Which of the following ratios is *most likely* to be used as a measure of operating performance?
- A. Cash ratio
 - B. Working capital turnover ratio
 - C. Defensive interval ratio
- 86.** Which of the following is *most likely* a benefit of debt covenants for the borrower?
- A. Restrictions on how the borrowed money may be invested
 - B. Reduction in the cost of borrowing
 - C. Limitations on the company's ability to pay dividends
- 87.** The following information is available for a company that prepares its financial statements in accordance with U.S. GAAP:
- It has production facilities with a net book value of \$28.4 million.
 - Recently, several other companies have entered the market, and the company now estimates that it will be able to generate cash flows of only \$3 million per year for the next seven years with its facilities.
 - The firm has a cost of capital of 10%.
- The impairment loss (in \$ millions) on the production facilities will *most likely* be reported in the company's financial statements as a:
- A. 7.4 reduction in the balance sheet carrying amount.
 - B. 13.8 reduction in operating cash flows.
 - C. 13.8 impairment loss on the income statement.
- 88.** For a company issuing securities in the United States to meet its obligations under the Sarbanes–Oxley Act, which of the following is management required to attest to?
- A. The adequacy of internal control over financial reporting
 - B. The accuracy of estimates and assumptions used in preparing the financial statements
 - C. The suitability of management and director compensation agreements
- 89.** A company issued a \$50,000 seven-year bond for \$47,565. The bonds pay 9% per annum, and the yield to maturity at issue was 10%. The company uses the effective interest rate method to amortize any discounts or premiums on bonds. After the first year, the yield to maturity on bonds equivalent in risk and maturity to these bonds is 9%. The amount of the bond discount amortization recorded in the first year is *closest* to:
- A. \$0.
 - B. \$348.
 - C. \$257.

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- 90.** A portion of a company's balance sheet appears in the following table (euros in millions):

Cash	4,000
Marketable securities	17,000
Accounts receivable	225,000
Inventory	229,000
Total current assets	475,000
Current liabilities	339,000

The company's quick ratio is *closest* to:

- A. 1.40.
- B. 0.06.
- C. 0.73.

- 91.** A company's most recent balance sheet shows the following values (NZ\$ thousands):

Accounts payable	3,800
Long-term debt	5,590
Other long-term liabilities	800
Common stock	1,200
Retained earnings	1,810

The company's debt-to-capital ratio is *closest* to:

- A. 1.86.
- B. 0.65.
- C. 0.77.

- 92.** A firm reports sales of €50,000 for the year ended 31 December 2012. Its accounts receivable balances were €6,000 at 1 January 2012, and €7,500 at 31 December 2012. The company's cash collections from sales for 2012 is *closest* to:

- A. €51,500.
- B. €48,500.
- C. €42,500.

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- 93.** A retailer that prepares its financial statements in accordance with IFRS has 100 office chairs in its inventory with a suggested retail price of \$240 each.
- It paid on average \$200 each to a supplier for these chairs.
 - Demand for office chairs has been low for quite a while and the retailer estimates it can sell those chairs for \$180 each if it offers free shipping to its customers at an average cost of \$10 per chair.
 - The supplier has also lowered its price to \$160 in response to the low demand.
- The total carrying amount of these 100 office chairs on the retailer's balance sheet would be *closest* to:
- A. \$16,000.
 - B. \$17,000.
 - C. \$18,000.
- 94.** An analyst's examination of the performance of a company is *least likely* to include an assessment of a company's:
- A. assets relative to its liabilities.
 - B. profitability.
 - C. cash flow generating ability.
- 95.** If a company that leases assets for its own use classifies its leases as finance leases instead of as operating leases, its financial statements in the first year would *most likely* report:
- A. higher equity.
 - B. higher debt.
 - C. lower cash from operations.
- 96.** A company issued bonds in 2012 that mature in 2022. The measurement basis that will *most likely* be used on the 2012 balance sheet for the bonds is:
- A. historical cost.
 - B. amortized cost.
 - C. market value.

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- 97.** A company owns its own office building which it purchased in 2011 for \$1,000,000. The real estate market has been volatile in the last few years. The company uses the revaluation model as allowed by IFRS and the following table shows the fair market values since 2011:

Year	Year-End Fair Market Value (\$ thousands)
2011	1,000
2012	600
2013	800
2014	1,300

The impact (in \$ thousands) on the income statement in 2014 will *most likely* be a gain of:

- A. 500.
 - B. 200.
 - C. 300.
- 98.** Which of the following is *most likely* considered an example of high-quality financial reporting?
- A. The selection of a depreciation method that results in lower earnings than would have arisen from using the economic depreciation
 - B. The selection of the longest reasonable depreciable life for an asset
 - C. Decreasing the percent of sales ratio used to estimate bad debt expenses when collection difficulties have increased
- 99.** A company pays its workers on the 1st and the 15th of each month. Employee wages earned from the 15th to the 30th of September are *best* described as a(n):
- A. accrued expense.
 - B. prepaid expense.
 - C. unearned expense.
- 100.** Which of the following statements is *least* accurate?
- A. The IASB is monitored by a board that includes the U.S. SEC.
 - B. IFRS Foundation trustees appoint members of the IASB.
 - C. IFRS Foundation trustees oversee the policy decisions of the FASB.

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101. According to U.S. GAAP, the payment of cash dividends during the year will *most likely* affect the cash flow from which type of activity?

- A. Financing
- B. Investing
- C. Operating

102. A company purchased a €2,000 million long-term asset in 2012 when the corporate tax rate was 30%.

Asset's Year-End Value for	2013 (€ millions)	2012 (€ millions)
Accounting purposes	1,800	1,900
Tax purposes	1,280	1,600

On 15 January 2013, the government lowered the corporate tax rate to 25% for 2013 and beyond. The deferred tax liability (€ millions) as of 31 December 2013, is *closest* to:

- A. 130.
- B. 156.
- C. 231.

103. An analyst is making the necessary adjustments to convert operating leases to capital leases for comparison with other companies. The *most likely* effect of the adjustments will be that the:

- A. current ratio will increase.
- B. interest coverage ratio will not be affected.
- C. debt-to-capital ratio will increase.

104. Consider the following information available for a company for last year:

ROE	4.74%
Net profit margin	2.6%
Revenue	\$400,000
Average total assets	\$300,000

The average shareholder's equity is *closest* to:

- A. \$123,418.
- B. \$164,557.
- C. \$219,409.

- 105.** Which of the following statements regarding inventory valuation is *most* accurate?
- A. IFRS defines market value as net realizable value less a normal profit margin.
 - B. Both IFRS and U.S. GAAP allow the reversal of write-downs back to the original cost.
 - C. Both IFRS and U.S. GAAP allow agricultural inventories to be valued at net realizable value.
- 106.** A company acquired a customer list for \$300,000 and a trademark for \$5,000,000. Management expects the customer list to be useful for three years, and it expects to use the trademark for the foreseeable future. The trademark must be renewed every 10 years with the Patent and Trademark office for a nominal amount; otherwise it expires. If the company uses straight-line depreciation for all its intangible assets, the annual amortization expense for these two assets will be *closest* to:
- A. \$0.
 - B. \$100,000.
 - C. \$600,000.
- 107.** When a company issues common stock as part of the conversion of a convertible bond, the cash flow statement will *most likely*:
- A. omit the transaction but disclose it in a separate note or supplementary statement.
 - B. include the transaction because it materially affects the company's financial position.
 - C. omit the transaction without disclosure.
- 108.** A firm incurred the following costs related to production during the past year:

	\$ millions
Fixed production overhead costs	3.0
Raw materials costs	6.0
Labor costs	4.0
Freight-in costs for raw materials	1.0
Warehousing costs for finished goods	2.0

The total capitalized inventory cost (in US\$ millions) for the year is *closest* to:

- A. 16.0.
- B. 13.0.
- C. 14.0.

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109. An entry made to record an accrual, such as bad debt expense, that is not yet reflected in the accounting system is *best* described as a(n):

- A. adjusting entry.
- B. trial balance entry.
- C. ledger entry.

110. A random variable with a finite number of equally likely outcomes is *best* described by a:

- A. continuous uniform distribution.
- B. discrete uniform distribution.
- C. binomial distribution.

111. A bank offers an effective annual rate (EAR) of 12%. Assuming quarterly compounding, the stated annual interest rate is *closest* to:

- A. 11.66%.
- B. 12.55%.
- C. 11.49%.

112. The joint probability of events A and B is 32%, with the probability of event A being 60% and the probability of event B being 50%. On the basis of this information, the conditional probability of event A given that event B occurs is *closest* to:

- A. 64.0%.
- B. 53.3%.
- C. 30.0%.

113. An analyst collects the following set of 10 returns from the past:

Year	1	2	3	4	5	6	7	8	9	10
Return (%)	2.2	6.2	8.9	9.3	10.5	11.7	12.3	14.1	15.3	18.4

The geometric mean return is *closest* to:

- A. 10.89%.
- B. 9.62%.
- C. 10.80%.

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- 114.** The relative strength index for a stock stands at 75. This reading is *best* described as an indication that the stock is
- A. overbought.
 - B. oversold.
 - C. neutral.
- 115.** When considering two mutually exclusive capital budgeting projects with conflicting rankings, the *most* appropriate conclusion is to choose the project with the:
- A. higher net present value (NPV).
 - B. shorter payback.
 - C. higher internal rate of return (IRR).
- 116.** The null hypothesis is *most* appropriately rejected when the *p*-value is:
- A. close to one.
 - B. close to zero.
 - C. negative.
- 117.** A mutual fund manager wants to create a fund based on a high-grade corporate bond index. She first distinguishes between utility bonds and industrial bonds; she then, for each segment, defines maturity intervals of less than 5 years, 5 to 10 years, and greater than 10 years. For each segment and maturity level, she classifies the bonds as callable or noncallable. She then randomly selects bonds from each of the subpopulations she has created. For the manager's sample, which of the following *best* describes the sampling approach?
- A. Systematic
 - B. Stratified random
 - C. Simple random

- 118.** The joint probability of returns, for securities A and B, are as follows:
Joint Probability Function of Security A and Security B Returns
(Entries Are Joint Probabilities)

	Return on Security B=30%	Return on Security B=20%
Return on Security A= 25%	0.60	0
Return on Security A= 20%	0	0.40

The covariance of the returns between Securities A and B is *closest* to:

- A. 13.
- B. 14.
- C. 12.

- 119.** An investor currently has a portfolio valued at \$700,000. The investor's objective is long-term growth, but she will need \$30,000 by the end of the year to pay her son's college tuition and another \$10,000 by year-end for her annual vacation. The investor is considering three alternative portfolios:

Portfolio	Expected Return	Standard Deviation of Returns	Safety-First Ratio
1			0.2290
2			0.3300
3	14%	22%	

Using Roy's safety-first criterion, which of the alternative portfolios *most likely* minimizes the probability that the investor's portfolio will have a value lower than \$700,000 at year-end?

- A. Portfolio 2
 - B. Portfolio 3
 - C. Portfolio 1
- 120.** A trader determines that a stock price formed a pattern with a horizontal trendline that connects the high prices and a trendline with positive slope that connects the low prices. Given the pattern formed by the stock price, the trader will *most likely*:
- A. purchase the stock because the pattern indicates a bullish signal.
 - B. avoid trading the stock because the pattern indicates a sideways trend.
 - C. sell the stock because the pattern indicates a bearish signal.