



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

CFA Level I Chartered Financial Analyst

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**QUESTION 1**

Two firms, A and B, have identical operations set up (except for their relative sizes). A has a debt-to-equity ratio of 0.4 while B has it at 0.3. A's profit margin is 1.2 times that of B but its sales force is not as effective as that of B. Hence, A's asset turnover is 0.9, compared to B's ratio of 1.15. A pays out 45% of its earnings as dividends while B pays out only 20%. Given this, the ratio of A's growth rate to B's growth rate must be:

- A. 1.23
- B. 0.70
- C. 1.44
- D. 0.88

Correct Answer: B

Use  $g = \text{ROE} \times \text{retention ratio}$  and

$\text{ROE} = \text{profit margin} \times \text{asset turnover} \times \text{financial leverage}$ .

$\text{Financial leverage} = \text{assets/equity} = 1 + \text{debt/equity}$ .

The ratio of A's growth rate to B's growth rate equals  $1.2 \times (0.9/1.15) \times [(1+0.4)/(1+0.3)] \times [(1-0.45)/(1-0.20)] =$

0.70

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**QUESTION 2**

The standard deviation of a two-stock portfolio least likely:

- A. must be less than or equal to the weighted-average standard deviation.
- B. can be reduced by increasing the relative weight of the stock with lower standard deviation.
- C. will be the lowest when the correlation between the two stocks equals zero.

Correct Answer: C

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**QUESTION 3**

A dataset of 105 observations is organized in a relative frequency distribution into 9 classes. The sum of the relative frequencies across all the classes equals \_\_\_\_\_.

- A. 9
- B. 1
- C. 105
- D. 100



Correct Answer: B

Relative class frequencies are percentages and across all classes, they must sum up to 100%, which is the same as summing up to 1.00.

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#### QUESTION 4

In the full cost method, oil firms:

- A. none of these answers.
- B. are required to expense all oil-drilling costs resulting in dry holes.
- C. must expense drilling costs which result in productive oil wells.
- D. can capitalize all oil-drilling costs.

Correct Answer: D

In extractive industries, firms are allowed to use either the full-cost method, in which all search and development costs can be capitalized, or the successful-efforts method, where all such costs are expensed unless they result in revenue-generating assets, in which case, they are capitalized.

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#### QUESTION 5

In a common size statement, a firm shows average receivables of 9.3%. Its receivables turnover equals

1.23. What's the average receivables collection period?

- A. 296.8 days
- B. insufficient information
- C. 321.6 days
- D. 184.3 days

Correct Answer: A

Average receivables collection period =  $365/\text{receivables turnover}$ . In this case, the collection period =  $365/1.23 = 296.8$  days.

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