



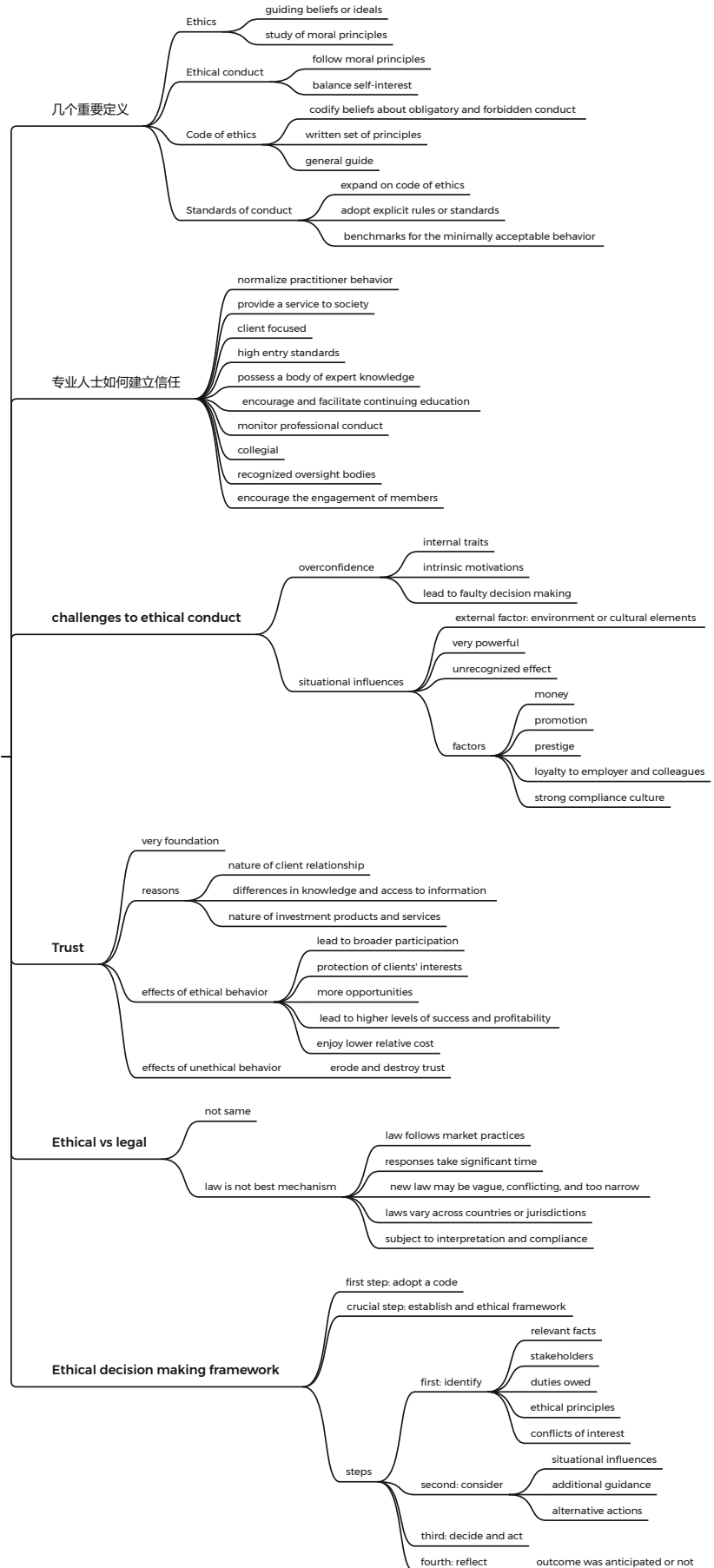
WIN CAREER

职赢财经培训
强化甄选题册（上）
2021年11月版



Ethics

Ethics (L1)
R1 Ethics and trust in the investment profession



R1 Ethics and trust in the investment profession

LOS a. explain ethics;

1. Benchmarks for minimally acceptable behaviors of community members are:
 - A. a code of ethics.
 - B. laws and regulations.
 - C. standards of conduct.

LOS f. identify challenges to ethical behavior;

2. Which of the following best identifies an internal trait that may lead to poor ethical decision making?
 - A. Overconfidence
 - B. Loyalty to employer
 - C. Promise of money or prestige
3. Situational influences in decision making will most likely be minimized if:
 - A. strong compliance programs are in place.
 - B. longer-term consequences are considered.
 - C. individuals believe they are truthful and honest.
4. Which of the following is NOT a factor of situational influences?
 - A. Prestige
 - B. Loyalty to employer
 - C. Internal factors

LOS g. distinguish between ethical and legal standards;

5. Which is an example of an activity that may be legal but that CFA Institute considers unethical?



- A. Making legally required disclosures in marketing materials
- B. Trading while in possession of material nonpublic information
- C. Disclosure by an employee of his or her own company's dishonest activity

LOS h. describe a framework for ethical decision making.

- 6. An ethical decision-making framework will most likely:
 - A. include a pre-determined, uniform sequence.
 - B. focus exclusively on confirmable facts and relationships.
 - C. help avoid a decision that has unanticipated ethical consequences.



R1 Ethics and trust in the investment profession
甄选题答案

R1 Ethics and trust in the investment profession

LOS a. explain ethics;

1. Answer: C

Standards of conduct are applied to specific communities or societal groups and identify specific behaviors required of community members. These standards of conduct serve as benchmarks for the minimally acceptable behavior of community members. Codes of ethics serve as a general guide for how community members should act; they communicate the organization's values and overall expectations regarding member behavior, but they do not identify specific behaviors required of community members. Laws and regulations are rules of conduct defined by governments and related entities about obligatory and forbidden conduct broadly applicable for individuals and entities under their jurisdiction.

LOS f. identify challenges to ethical behavior;

2. Answer: A

An overconfidence bias can lead individuals to put too much importance on internal traits and intrinsic motivations, such as their own perceptions of personal honesty, that can lead to faulty decision making. Loyalty to an employer and promise of money or prestige are situational influences that can lead to faulty decision making.

3. Answer: B

Consciously considering long-term consequences will help offset situational influences. We more easily recognize and consider short-term situational influences than longer-term considerations because longer-term considerations have fewer immediate consequences than situational influences do. When decision making is too narrowly focused on short-term factors, we tend to ignore longer-term risks and consequences, and the likelihood of poor ethical decision making increases. A strong compliance policy is a good first step toward developing an ethical culture; a focus on rules adherence may not be sufficient. Emphasis on compliance may not encourage decision makers to consider the larger picture and can oversimplify decision making. Taken to the extreme, a strong compliance culture can become another situational influence that blinds employees to other important considerations. An overconfidence bias can place too much importance on internal traits and intrinsic motivations, such as "I'm honest and would not lie," even though studies have shown that internal traits are generally not the main determinant of whether or not someone will behave ethically in a given situation.

4. Answer: C

The factors of situational influences include Money; Promotions; Prestige; Loyalty to employer and colleagues; A strong compliance culture.

LOS g. distinguish between ethical and legal standards;

5.Answer: B

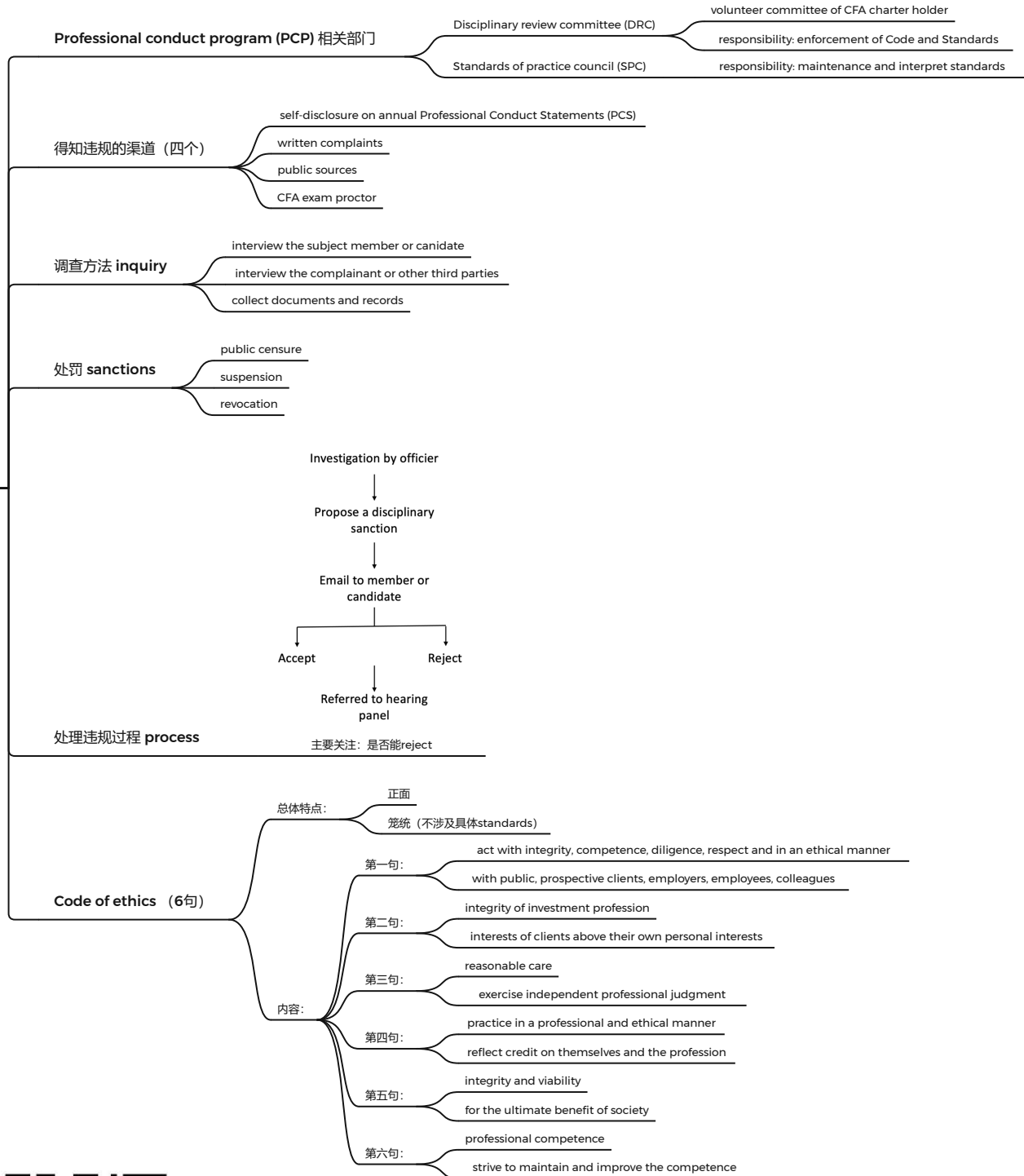
The investment industry has examples of conduct that may be legal but that CFA Institute considers unethical. Trading while in possession of material nonpublic information is not prohibited by law worldwide and can, therefore, be legal, but CFA Institute considers such trading unethical.

LOS h. describe a framework for ethical decision making.

6.Answer: C

Using an ethical decision-making framework consistently will help you develop sound judgment and decision-making skills and avoid making decisions that have unanticipated ethical consequences. The decision-making process is often iterative, and the decision maker may move between phases of the framework. A decision maker should consider more than confirmable facts and relationships; for example, the decision maker should consider situational influences and personal biases.

**Ethics (L1)
R2 Code of ethics**



R2 Code of ethics

LOSa. Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.

7. Michael Dyson, CFA, is an investment manager. Recently he was accused of violating the CFA Code of Ethics. A principle sanction was proposed that his CFA Institute membership will be suspended for two years. Michael doesn't accept the sanction. Which of the following actions by Michael is most consistent with the CFA Institute Professional Conduct Program?
- A. Refer the matter to the hearing panel
 - B. Still presenting himself as a CFA charter holder to the public
 - C. Make a complaint to Professional Conduct Program

LOS b. State the six components of the Code of Ethics and the seven Standards of Professional Conduct.

8. According to the CFA Institute Code of Ethics, CFA Institute members shall:
- A. preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.
 - B. act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment
 - C. maintain knowledge and comply with all applicable laws, rules and regulations.
9. Which of the following is NOT part of the CFA Institute Code of Ethics? Members of CFA Institute will:
- A. use reasonable care and exercise independent professional judgment.
 - B. strive to maintain and improve their competence and the competence of others in the profession.
 - C. recommend investments that maximize returns for a given level of risk.



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R2 Code of ethics

甄选题答案

R2 Code of ethics

LOSa. Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.

7.Answer: A

If a member or candidate rejects the sanction, the matter is referred to a hearing panel composed of DRC members and CFA Institute member volunteers affiliated with the DRC.

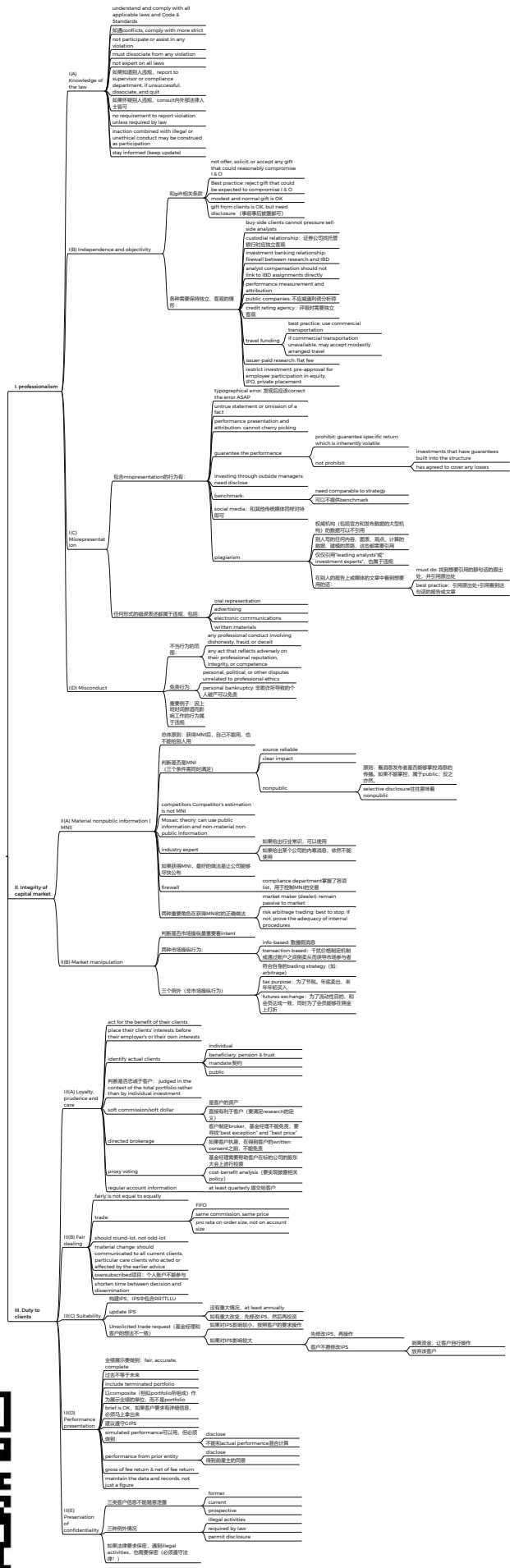
LOS b. State the six components of the Code of Ethics and the seven Standards of Professional Conduct.

8.Answer: B

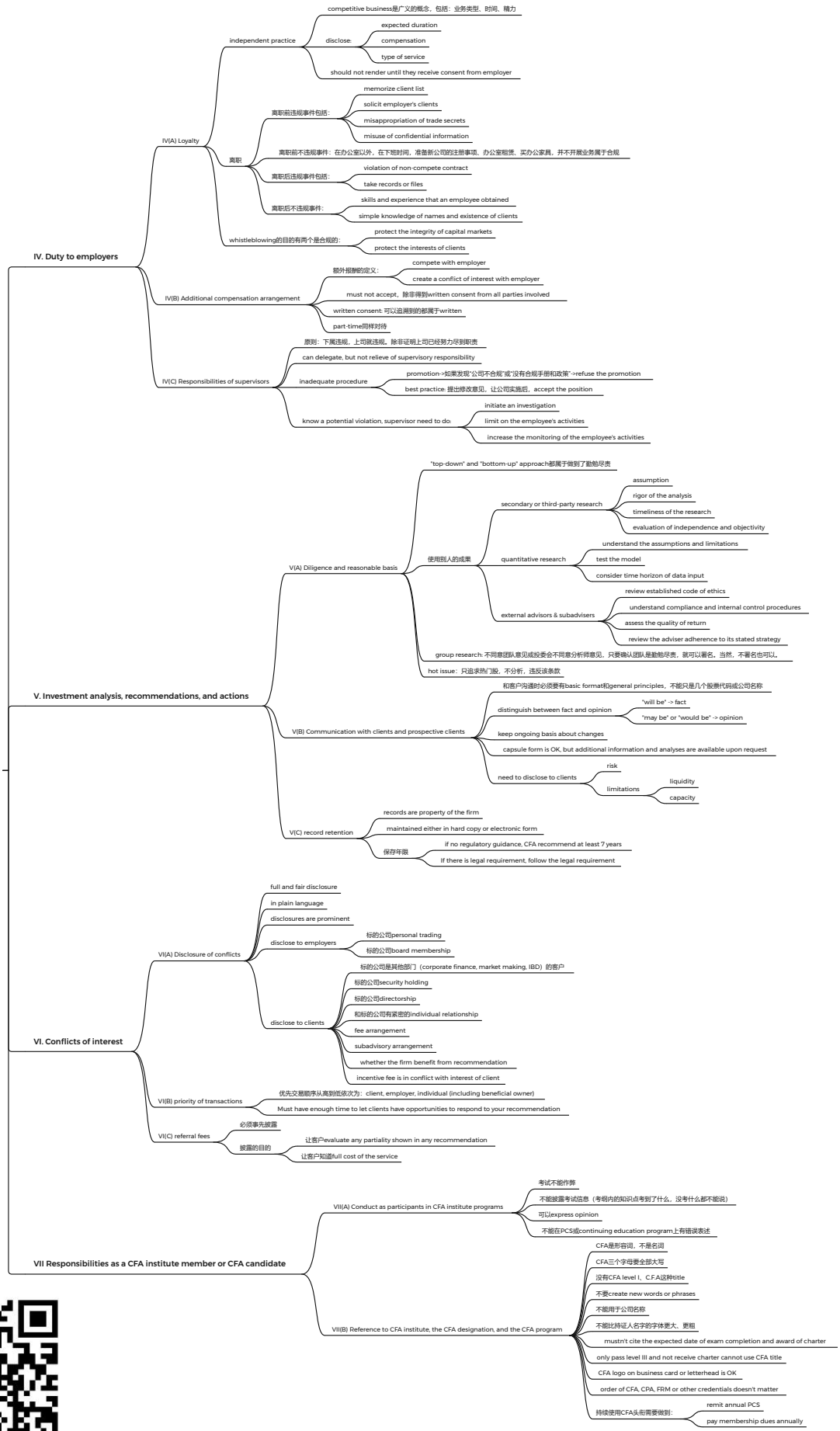
Acting with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets is one of the six components of the Code of Ethics, whereas the other statements are part of the Standards of Professional Conduct.

9.Answer: C

Standard of Professional Conduct III(C), not the Code of Ethics, requires that investments be appropriate and suitable.



Ethics (L1)
R3 Guidance for standards I-VII



R3 Guidance for standards I-VII

10. Linda Chin, CFA, is a member of a political group advocating lower governmental regulation in all aspects of life. She works in a country where local securities laws are minimal and insider trading is not prohibited. Chin's politics are reflected in her investment strategy where she follows her country's mandatory legal and regulatory requirements. Which of the following actions by Chin is most consistent with the CFA Institute Standards of Professional Conduct?
- A. Follow the CFA Code and Standards.
 - B. Continue her current investment strategy.
 - C. Disclose her political advocacy to clients.
11. Jane and Joe work for an investment company and even in the same group. Jane, CFA, always shares some latest information in the industry with Joe, who is studying for the CFA level 2 exam. One day Joe discovered that Jane may conduct something that maybe harmful to the company's clients. What should Joe do with this situation?
- A. Do nothing because he takes no supervisory duties and should appreciate the help from Jane
 - B. Report to the CFA committee
 - C. Disassociate from the misconduct and report to the company's compliance department
12. Bob Smith, CFA, is an independent board member of Atlantic Technologies, but is not paid by the firm for his services. An employee at Atlantic informs Smith that Atlantic has improperly timed the booking of contracts to achieve the desired quarterly financial results. The misleading financial statements would turn losses into profits. Smith confers with the firm's legal counsel who indicates that this conduct is, in fact, illegal. Smith urges Sharon White, Atlantic's chief financial executive, to change the financial statements, but she refuses to do so and indicates the firm's external auditors have approved the method of revenue recognition she has used. According to CFA Institute

- Standards of Professional Conduct, which of the following actions is least likely appropriate for Smith: in this situation?
- A. Dissociate from the activity by resigning as a director or by reporting the activities to the appropriate authorities.
 - B. Bring his concerns to the other board members.
 - C. Report the illegal activity to CFA Institute.
13. Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:
- A. Country A but the law in Country B and Country C.
 - B. Country A, Country B, and Country C.
 - C. Country A and Country B but the law in Country C.
14. WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's best course of action is to:
- A. keep quiet since this is material non-public inside information.
 - B. inform her immediate supervisor at WEB of her discovery.
 - C. notify potential investors of the omission on a fair and equitable basis.

15. Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is least likely to be required to:
- A. report the violation to the CFA Institute Professional Conduct Program.
 - B. seek legal advice to determine what actions should be taken.
 - C. disassociate herself from the activity.
16. Benito Salvatore, CFA, is licensed in the established country of Oldworld but has clients and makes investments in the emerging country of Newworld. The regulations of Oldworld prohibit licensed investment professionals from taking gifts or gratuities in any amount from vendors or persons connected with potential investments. The laws of Newworld are silent on this issue. Unsolicited, Salvatore is offered a vase worth US \$75 by a Newworld trust company and a bronze statue worth US \$200 by a Newworld company that Salvatore is considering as a potential investment. Salvatore is:
- A. permitted to accept both gifts.
 - B. permitted to accept the vase but not the statue.
 - C. not permitted to accept either gift.
17. Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:
- A. Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.
 - B. both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct
 - C. both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.

18. Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. Brynne must:
- A. rely on his firm's policies and procedures for guidance on legal and regulatory standards.
 - B. have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.
 - C. update his understanding of applicable laws and regulatory standards relating to his position.
19. Maria Valdes, CFA, is an analyst for Venture Investments in the country of New America, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds US \$250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of US \$250. Valdes is obligated to:
- A. disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.
 - B. disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.
 - C. disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.
20. Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:
- A. allowed to accept the payment for transportation because the trip was all business and was out of the way.
 - B. allowed to accept the payment for transportation as long as it does not exceed \$100.
 - C. not allowed to accept the payment for transportation because this is a considered a "perk" and may influence his independent judgment.

21. Susan Nielsen, CFA, is an equity research analyst on a fact-finding property tour with 6 other analysts to learn about Just Kittens, Inc. Just Kittens sells tungsten ball-bearings and has 16 warehouses, and 20 manufacturing, research, and wholesale sales outlets scattered over 8 countries – mostly emerging markets. Because of the remote location of some of the facilities, commercial travel is effectively unavailable. Just Kittens charters a jet and various busses to take the research analysts to the properties. If Nielsen accepts these accommodations, she is most likely:
- A. not in violation of Standard I(B) "Independence and Objectivity" because best practices dictate that better access to company executives is likely to lead to more accurate and timely
 - B. in violation of Standard I(B) "Independence and Objectivity."
 - C. not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.
22. Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up Rosenberg from an airport near Rosenberg's home and to return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:
- A. has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.
 - B. has not violated the Code and Standards.
 - C. has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.

23. Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design, Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from an unrecognizable Finance web site. Thomas has:

- A. violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate.
- B. not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet.
- C. violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.

24. The following information involves two research analysts at a brokerage firm.

Erik Bagenot, CFA, is preparing a research report on Global Enterprises, Inc. In preparing the report, he uses materials from many sources. For example, he uses factual information published by Standard & Poor's Corporation without acknowledging the source. He also uses excerpts from a research report prepared by another analyst. Bagenot makes only a slight change in wording for these excerpts, but acknowledges the source.

Sally Wain, who is currently enrolled in the CFA program, is preparing a research report on Manson Telecommunications. She attends a conference in which several investment experts provide their views about the future prospects of this company. Wain cites several quotations from these investment experts in her report without specific reference.

According to CFA Institute Standards of Professional Conduct involving prohibition against plagiarism, which of the following statements is CORRECT?

- A. Wain violated the Standards, but Bagenot did not.
- B. Both Bagenot and Wain violated the Standards.
- C. Bagenot violated the Standards, but Wain did not.

25. Robert is responsible for the creation and distribution of ABC Company's marketing materials. In the materials, it says that the asset value of the company is 350 billion, but actually the true value is 35 billion. Before Robert could make necessary change to the data, his subordinates had distributed these materials to their clients without seeking Roberts' permission. Robert doesn't know the distribution of the materials. Under this circumstance, does Robert violate any CFA Standards of Professional Conduct?
- A. No.
 - B. Misrepresentation.
 - C. Misconduct.
26. Marc Randall, CFA, is an investment analyst. During a meeting with a potential client, Randall's boss states that, "You can be sure our investments will always outperform Treasury Bonds because of our fine research staff members, like Marc." Randall knows that this statement is:
- A. a violation of fiduciary duties owed to clients under the Standards.
 - B. a violation of the Standard concerning prohibition against misrepresentation.
 - C. not in violation of the Code and Standards.
27. Timothy Hooper, CFA, is a security analyst at an investment firm. In his spare time, Hooper serves as a volunteer for City Pride, which collects clothes for the homeless. Hooper has occasionally given some of the clothes to his friends or sold the clothes instead of returning all of the clothing to City Pride. City Pride discovers what he has been doing and dismisses him. Later, City Pride learns that other volunteer organizations have dismissed Hooper for similar actions. Has Hooper violated Standard I(D) on professional misconduct in the CFA Institute Standards of Professional Conduct?
- A. No, because Hooper's conduct is unrelated to his professional activities as a security analyst.
 - B. No, because Hooper volunteers his services to City Pride.
 - C. Yes.

28. Nancy Hall, a candidate in the CFA program, is an analyst for a mutual fund. As part of her job she makes company visits to interview executives. On a recent trip she stayed with her sister instead of at a hotel. In her expenses Hall included a hotel charge of \$100, which was less than the amount allowed by her employer. After receiving a check for her expenses, Hall disclosed to her supervisor that she had stayed with her sister instead of at a hotel. She also returned the \$100 to her employer. According to CFA Institute Standards of Professional Conduct, which of the following statements best describes Hall's professional conduct?
- A. Hall did not engage in professional misconduct because she eventually disclosed this information and returned the \$100 to her employer.
 - B. Hall did not engage in professional misconduct because she did not meet all of the requirements to use the CFA designation.
 - C. Hall engaged in professional misconduct.
29. A CFA charterholder is caught shoplifting and is sentenced to nine months in prison. Is this a violation of Standard I(D) Misconduct?
- A. No, because the crime does not relate to the investment profession.
 - B. Yes, because the crime involved stealing.
 - C. Yes, because the prison sentence is more than six months.
30. Which of the following actions most likely violates Standard I(D) Misconduct?
- A. A member pursues an employment opportunity with a competing firm, primarily as a means of securing a salary increase from her current employer.
 - B. A Level I candidate submits a request to her employer for auto travel reimbursement using inflated mileage totals
 - C. An analyst is arrested for trespassing while participating in an anti-abortion protest.
31. Frank Luis, a fund manager, decided to file for personal bankruptcy because of a huge loss on his personal investment. Does Frank violate any CFA Institute Standards of Professional Conduct?
- A. No

- B. Yes, related to Misconduct
 - C. Yes, related to Knowledge of law
32. Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:
- A. has violated the Standards by utilizing material nonpublic information.
 - B. has violated the Standards by disseminating confidential information.
 - C. has not violated any Standard.
33. Which one of the following least accurately describes the CFA Institute Standard about using material nonpublic information?
- A. An analyst using material nonpublic information may be fined by CFA Institute.
 - B. An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.
 - C. An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.
34. Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:
- A. not sell Knoll stock from either the pension fund or her personal account.
 - B. sell Knoll stock from her personal account but may not sell it from the pension fund.
 - C. sell Knoll stock from the pension fund but may not sell it from her personal account.

35. Miguel Sanchez, CFA, an analyst working in an investment firm. One day he overheard the conversation between the CEO of a listed company and a portfolio manager that the earnings of the company has doubled and that information has not been released to public. Which of the following actions by Miguel is least likely a violation to the CFA Institute Standards of Professional Conduct?
- A. Taking no investing action
 - B. Disclose the information to some of his clients
 - C. Purchasing the stock for his clients
36. Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:
- A. transaction-based manipulation, but not information-based manipulation.
 - B. both transaction-based manipulation and information-based manipulation.
 - C. neither transaction-based manipulation nor information-based manipulation.
37. John Wallace, CFA, is an analyst in an investment management firm. He short sells the stock of Gravity Company. In order to profit from the short selling, he make up some negative news of the target company and disclose them to the public. Which of John 's following actions is least likely to be in violation of the CFA Institute Standards of Professional Conduct?
- A. Short selling
 - B. Fabricate negative news
 - C. Spread the fake news to the public
38. In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is not a required or recommended action?
- A. Utilize client brokerage to the sole benefit of the client.

- B. Submit to clients, at least quarterly, itemized statements detailing all of the period's transactions.
 - C. Vote all proxies on behalf of clients in a responsible manner.
39. Heidi Krueger, CFA, an investment advisor, applies soft dollars generated from client accounts to purchase a report on the economic impact of world events, and to purchase a new conference table for the office she uses to meet with clients and prospects. Do these purchases violate Standard III(A) Loyalty, Prudence, and Care?
- A. Neither of these purchases violates the Standard.
 - B. Both of these purchases violate the Standard.
 - C. Only one of these purchases violates the Standard.
40. The investment-banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. In order to conform to CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt? According to Standard:
- A. III(B), Fair Dealing, all clients should be informed of the information at the same time
 - B. II(A), Material Nonpublic Information, XYZ should establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and the
 - C. II(A), Material Nonpublic Information, XYZ should encourage their investment banking clients to publicly disseminate this information.
41. Sandra Bulow, CFA, is responsible for updating her employing firm's website to include changes in analysis techniques and trading procedures. She is often very delinquent in making these changes, despite working extensive hours. She is aware clients are using the website to make investment decisions, and has received complaints from the sales department as the information on the website is often different from what is presented in sales meetings. Bulow is most likely:
- A. in violation of Standard III(B) "Fair Dealing."
 - B. in violation of Standard I(C) "Misrepresentation."

- C. not in violation of any Standard.
42. An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal under which he provides money management advice in lieu of paying dues. While performing services for the organization, the analyst discovers some useful computer programs that his predecessor developed and left as the property of the organization. The analyst decides to use the computer programs in his consulting business. This action is:
- A. a violation of Standard I(D) concerning misconduct.
 - B. a violation of Standard III(B) concerning fair dealing.
 - C. appropriate since the analyst is technically an employee of the organization.
43. James Bush, CFA, is meeting with an investor, George Stephan, for the first time. During their first meeting, Bush, before making any inquiry regarding the client's circumstances, outlines several investment strategies and also describes a specific stock with what Bush believes offers a high potential for large gains, and recommends that Stephan include this stock in his portfolio. With regard to suitability, Bush's actions:
- A. violate the Standards because Bush must obtain information on which securities the client has invested in previously, in order to make appropriate investment recommendations.
 - B. comply with the Standards.
 - C. violate the Standards because Bush must determine Stephan's risk tolerance, objectives and needs before making any investment recommendations.
44. Ronan Keisler, CFA, is a manager of a mutual fund. The investment policy dictates that the mutual fund are expected to invest to low risk large-cap stocks. One of his clients asked Ronan to invest in small-cap stocks because he has higher risk tolerance. Ronan ignores the client's request. Did Ronan violate the CFA Institute Code and Standards?
- A. No
 - B. Yes, related to Suitability
 - C. Yes, related to Loyalty, Prudence and Care

45. Paula Munson, CFA, manages a mutual fund with an objective to emphasize income over capital gains. Magic Technologies is a growth stock that pays no dividend, but Republic's research department believes the stock will dramatically outperform the S&P 500 over the next 12 to 18 months. Based on this strong recommendation, Munson adds Magic stock to her fund's portfolio. Munson has:
- A. not violated the Standards and improved the diversification of the fund.
 - B. violated the Standards by failing to comply with her portfolio's style mandate.
 - C. violated the Standards by relying on research that she did not perform herself.
46. Stephen Rangen, a broker, has three accounts consisting of unsophisticated, inexperienced individual investors with limited means. One of these accounts is an elderly couple. The clients want to invest in safe, income-producing investments. They rely heavily on Rangen's advice and expect him to initiate most transactions in their respective accounts. In managing their accounts, Rangen pursues the following strategies: (1) buys U.S. treasury strips and non-dividend paying over-the-counter (OTC) stocks recommended by his firm's research department, (2) uses margin accounts, and (3) concentrates the equity portion of their portfolio in one or two stocks. Rangen's approach leads to extremely high turnover rates in all three accounts.
- Which of the following statements about Rangen's conduct is most accurate? Rangen's conduct:
- A. meets the requirements of the Code and Standards because his clients are aware of the risks that he is taking in managing their accounts.
 - B. does not meet the requirements of the Code and Standards because his investment strategy is inconsistent with his clients' objectives.
 - C. meets the requirements of the Code and Standards because his firm's research department recommended the U.S. Treasury strips and non-dividend paying stocks.
47. An investment advisor goes straight from a research seminar to a meeting with a prospective new client with whom she has never been in contact. The advisor is very

- excited about the information she just received in the seminar and begins showing the prospect the new ideas her firm is coming up with. This is most likely a violation of:
- A. both of these.
 - B. Standard III(C), Suitability.
 - C. Standard III(B), Fair Dealing.
48. A money manager is meeting with a prospect. She gives the client a list of stocks and says, "These are the winners I picked this past year for my clients. Their double-digit returns indicate the type of returns I can earn for you." The list includes stocks the manager had picked for her clients, and each stock has listed with it an accurately measured return that exceeds 10%. Is this a violation of Standard III(D), Performance Presentation?
- A. No, because the manager had the historical information in writing.
 - B. Yes, unless the positions listed constitute a complete presentation (i.e., there were no stocks omitted that did not perform in the double digits).
 - C. Yes, because the manager cannot reveal historical returns of recent stock picks.
49. A money management firm has created a new junk-bond fund. When the firm advertised the new fund at its issuance, they used care to accurately compute the returns from the past 10 years for all assets in the fund. The firm used the current portfolio weights to determine an average annual historical return equal to 18% and claim an 18% annual historical return in their advertising literature. With respect to Standard III(D), Performance Presentation, this is:
- A. a violation because the advertisement implies the firm generated this return.
 - B. in compliance.
 - C. a violation because the Standard prohibits computing historical returns on risky assets like junk bonds.
50. Hui Chen, CFA, develops marketing materials for an investment fund he founded three years ago. The materials show the 3-year, 2-year, and 1-year returns for the fund. He includes a footnote that states in small print "Past performance does not guarantee

future returns.” He does not claim compliance with GIPS in the disclosures or footnotes. He also includes a separate sheet showing the most recent semi-annual and quarterly returns, which notes that they have been neither audited nor verified. Has Chen most likely violated any CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, because he included un-audited and unverified results.
- C. Yes, because he did not adhere to the Global Investment Performance standards.

51. Ricky Stanly, CFA, is an analyst who is responsible for performance presentations at his investment firm. When Ricky presents the performance, the performance results he prepares show outcomes based on assumptions reflecting upward bias and positive risk assessments. Does Ricky most likely violate any CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. No
- B. Yes, related to Performance Presentation
- C. Yes, related to Communication with clients

52. Andrew Mader, CFA, is an analyst with Metro Investment Services. During lunch with some of Metro's managers, Mader is told, "There are going to be major problems at Gebco (a firm that Metro had brought public last year). I was just over there and the place is just crawling with government inspectors." Mader had just issued a report with a "buy" recommendation on Gebco last week. Mader should:

- A. not do anything to avoid a violation of fair dealing.
- B. not do anything because to do so would violate his obligation to preserve confidentiality.
- C. immediately issue a new report, but only after stopping by Gebco himself to corroborate the story.

53. Elbie Botha, CFA, an equity research analyst at an investment bank, disagrees with her research team's buy recommendation for a particular company's rights issue. She acknowledges that the recommendation is based on a well-developed process and extensive research but feels the valuation is overpriced based on her assumptions. Despite her contrarian view, her name is included on the research report to be

- distributed to all of the investment bank's clients. To avoid violating any CFA Institute Standards, it would be least appropriate for Botha to undertake which of the following?
- A. Leave her name on the report.
 - B. Insist her name is removed from the report.
 - C. Issue a new report based on her conclusions.
54. Marc Davidson, CFA, works as a trust specialist for Integrity Financial. On his own time, Davidson starts a part time consulting business providing advice to Trustees for a fee. He conducts this business on his own time. 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 a violation of the Standards.
55. Jimmy Laurence, a research analyst, is working in an investment firm. He wants to start his own business. So he sent the detailed records of his investment performance history as advertising material to prospective clients. Does Jimmy violate any Code and Standards?
- A. No
 - B. Yes, he violates Additional Compensation Arrangement
 - C. Yes, he violates Loyalty
56. Charlie Mancini, CFA, is the Managing Director for Business Development at SV Financial (SVF), a large US-based mutual fund organization. Mancini has been under pressure recently to increase revenues. In order to secure business from a large hedge fund

- manager based in Asia, Mancini recently approved flexible terms for the fund's client agreement. To allow for time zone differences, the agreement permits the hedge fund to trade in all of SVF's mutual funds six hours after the close of US markets, which is prohibited by US regulators. Did Mancini violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, with regard to Fair Dealing.
 - C. Yes, with regard to Fair Dealing and Material Nonpublic Information.
57. Theresa Hatcher, CFA, is making arrangements to establish her own investment advisory business before terminating her relationship with her current employer, Elite Brokers, Inc. Elite is a small company consisting of only six investment professionals and a small support staff. According to CFA Institute Standards of Professional Conduct, which of the following activities is least likely a violation of Hatcher's duty to Elite?
- A. Hatcher solicits Elite's clients before her termination of employment at Elite.
 - B. Hatcher leases office space, furniture, and other equipment for her new business.
 - C. Hatcher engages in secret negotiations with two other investment professionals and her administrative assistant to leave Elite in order to join her new business.
58. Nicholas Brynne, CFA, develops a trading model while working for CE Jones, an investment management firm. By working on the model at home from his personal computer, Brynne is able to devote additional work hours. Although the trading model is successful, Brynne loses his job in a company restructuring, and decides to start his own practice using the trading model. Nicholas is most likely:
- A. not in violation of the Standards because the trading model was created using his home computer.
 - B. in violation of the Standards because he did not receive permission from his employer to keep or use the files after employment ended.
 - C. in violation of the Standards because he did not have permission to build the trading model using his home computer.

59. Francisco Perez, CFA, is an equity research analyst for a long-term investment fund. The fund is seeking new clients, so Perez contacts old clients he knew through his former employer. Which of the following is most accurate?
- A. Perez cannot solicit clients from a former employer.
 - B. Perez is not prevented from soliciting clients as long as he is working from memory and publicly available information rather than a list generated while he was still with the former
 - C. Perez can only solicit clients after notifying his former employer.
60. Bob Douglas, CFA, is considering leaving his current employer to compete in the same field. He did not sign a non-compete clause when he was hired. He may:
- A. begin competing with his current employer as long as the employer has been informed of Douglas' future intentions.
 - B. plan and prepare to compete with his current employer, but not begin competing until his resignation is effective.
 - C. may not prepare to compete, begin competing, or anything related to competing with his current employer.
61. Buta Singh, CFA, has a large extended family and manages the portfolios of several family members. Singh does not charge the family members a management fee, but receives a small percentage of each portfolio's profits. Singh accepted a position as portfolio manager for Bhotmange Investments to manage high net worth accounts .As the family portfolios were not normal client relationships, Singh did not inform his new employer of his side activity .With respect to the family portfolios; did Singh violate any CFA Institute Standards of Professional Conduct?
- A. No
 - B. Yes, because he failed to obtain consent from his employer
 - C. Yes, because he failed to disclose his new employment to his existing clients

62. Michel Marchant, CFA, recently became an independent money manager. After six months, he has only ten clients, who are family and friends. To supplement his income, Marchant accepted part-time employment as an advisor at Middleton Financial Advisors. According to CFA Institute Standards of Professional Conduct, which of the following statements about Marchant's duty to his new employer is CORRECT?
- A. Marchant need not inform Middleton about his existing clients but must inform his existing clients about his new part-time employment at Middleton.
 - B. Marchant must inform Middleton to keep his existing clients and must inform his existing clients of his new part-time employment at Middleton.
 - C. Marchant must inform Middleton about his existing clients but need not inform his existing clients about his new part-time employment with Middleton.
63. Sharon West is a CFA charterholder and trust officer for REO Trust Company. Soon after beginning work for REO, West finds that REO has been conducting all its securities transactions through her brother who is a registered representative. West's brother charges REO commissions that are equal to the lowest available from another broker. West's brother tells her that if she continues doing business with him, he will give her a substantial discount on all personal transactions she conducts through him. West:
- A. does not need to inform her employer of the arrangement because the commissions her brother charges the firm are the lowest possible.
 - B. must inform her employer of the arrangement because she is doing business with a member of her immediate family.
 - C. must inform her employer of the arrangement because it provides her with additional compensation.
64. David Saul, CFA, heads the trust department at Savage National Bank. Fairway Enterprises invites Saul to sit on its Board of Directors. In return for his services on the Board, Fairway offers to provide Saul and his family with access to the facilities at Wilmont Country Club at no cost. Saul will not receive any monetary compensation for his services on the Board. According to CFA Institute Standards of Professional Conduct, which of the following actions must Saul take?

- A. Saul must disclose in writing to Savage Bank the terms of the offer whether or not he accepts the offer to serve on the Board of Directors.
 - B. Saul must obtain written consent from Savage Bank and Fairway Enterprises if he decides to accept the offer to serve on the Board of Directors.
 - C. Saul must reject the offer to serve on the Board of Directors.
65. Francesca Ndenda, CFA, and Grace Rutabingwa work in the same department for New Age Managers with Rutabingwa reporting to Ndenda. Ndenda learns that Rutabingwa received a Notice of Enquiry from the Professional Conduct Program at CFA Institute regarding a potential cheating violation when he sat for the CFA exam in June. As Rutabingwa's supervisor, Ndenda is afraid the behavior of Rutabingwa will be seen as a violation of the CFA Code and Standards. Does Ndenda most likely have cause for concern?
- A. Yes.
 - B. No, because her responsibilities do not apply.
 - C. No, not until Rutabingwa is found guilty of cheating
66. Ailey, CFA, is designated as a new supervisor in a large investment advisory company. She requires that anyone under her supervision must comply with the Code and Standard. Is her request appropriate?
- A. Yes
 - B. No, only members and candidates
 - C. No, only members, candidates and analysts
67. Jennifer Stewart, CFA, a supervisor at an investment advisory firm, has tried unsuccessfully to convince top management of the firm's need for a formal, comprehensive compliance program. What is Stewart's most appropriate course of action?
- A. Rely on the Code and Standards to perform her duties as a supervisor.
 - B. Decline in writing to accept supervisory responsibility.
 - C. Resign from the firm if no compliance program is instituted.

68. A firm recently hired Hal Crane, CFA, to be a supervisor in the firm. Crane has reviewed the procedures for complying with the Code and Standards in the company. It is Crane's belief that the procedures need revision in order to be effective. Crane must:
- A. decline supervisory responsibilities in writing until the company adopts an adequate compliance system.
 - B. exercise his supervisory responsibilities with the greater level of diligence required by the Code and Standards.
 - C. make reasonable efforts to encourage the company to adopt an adequate compliance system.
69. Sallie Lewis, CFA, is a research analyst covering the mining industry. Along with other analysts, Lewis visited the primary mine of Gold Rush Mines (GR). During the visit, a major piece of equipment failed and Lewis overheard an unidentified employee state that production would be stalled for six months. Lewis immediately filed a sell recommendation on GR without any additional research. Has Lewis violated any CFA Institute Standards?
- A. No
 - B. Yes, with respect to diligence and reasonable basis
 - C. Yes, with respect to material nonpublic information
70. Jimmi Alvarez, CFA, is the founder of an investment advisory firm serving high net worth investors. For the past decade, Alvarez has invested his clients' money in mid-cap stocks. After much research, Alvarez determines that small-cap stocks are undervalued and moves a portion of all of his clients' assets into these stocks. Alvarez plans to inform his clients of this change with their year-end statements in three months. Has Alvarez violated any CFA Institute Standards?
- A. No
 - B. Yes, with respect to misrepresentation
 - C. Yes, with respect to communication with clients and prospective clients

71. The O'Douls (husband and wife) have decided to work with Jane Mack, CFA, to have her recommend an investment portfolio for them. The O'Douls are novice investors and Mack has determined their asset allocation model falls into the conservative category. After researching various investment options for the O'Douls, Mack has made a recommendation that they divide their account on a 25%/75% basis between shares of a computer peripherals manufacturing company her brokerage firm is underwriting and investment grade corporate bonds. The O'Douls are not aware that Mack's firm is underwriting an offering of the company in question. Which CFA Institute Standard(s) has Mack violated given her actions?
- A. Standard V(A), Diligence and Reasonable Basis, and I(D), Misconduct.
 - B. Standard III(B), Fair Dealing, and III(A), Loyalty, Prudence, and Care.
 - C. Standard VI(A), Disclosure of Conflicts, and III(C), Suitability.
72. Florence Zuelekha, CFA, is an equity portfolio manager at Grid Equity Management (GEM), a firm specializing in commodities. Zuelekha, who previously focused on alternative energy, recently attends her first commodity conference, sponsored in large part by GEM. Independent industry experts argued that commodities would increase in value and recommended that investors hold at least 10% of their portfolio assets in commodities based on consistent increases in their values over the previous two years. Without doing any additional research, Zuelekha recommends to all her clients an immediate allocation of 5% of their portfolio into commodities. Over the next few weeks, Zuelekha moves her own portfolio to a 10% commodity allocation. Which of the CFA Standards did Zuelekha most likely violate?
- A. Priority of Transactions.
 - B. Independence and Objectivity.
 - C. Diligence and a Reasonable Basis
73. Guillermo Sandoval, CFA, owns an asset management firm with offices downtown, To minimize rent expenses, each year Sandoval ships the previous year's research records

- to a nearby warehouse. There, the reports are digitized and stored in both electronic and hard-copy forms. After five years, all paper copies are destroyed and only electronic copies are retained. Are Sandoval's record-retention procedures in compliance with the CFA Institute Standards of Practice?
- A. Yes
- B. No, because he did not retain the copies in his offices
- C. No, because he failed to retain the original documents
74. Sheila Schleif, CFA, is an equity analyst at an investment banking division of Mokara Financial Group, a full service financial group. Schleif uses a multifactor computer model to make stock recommendations for all clients of Mokara. Schleif discovers that the model contains an error. If the error were corrected, her most recent buy recommendation communicated to all clients would change to a sell. Schleif corrects the error, changing the buy to a sell recommendation, and then simultaneously distributes via e-mail the revision to all investment banking clients who received the initial recommendation. A week later, Schleif sells the same shares she held in her personal portfolio. Concerning her actions, Schleif most likely violated which of the following CFA Institute Standards of Professional Conduct?
- A. Fair Dealing
- B. Priority of Transactions
- C. Diligence and Reasonable Basis
75. Todd Gable, CFA, was attending a noon luncheon when he overheard two software executives talking about a common vendor, Datagen, about how wonderful they thought the company was, and about a rumor that a major brokerage firm was preparing to issue a strong buy recommendation on the stock. Gable returned to the office, checked a couple of online sources, and then placed an order to purchase Datagen in all of his discretionary portfolios. The orders were filled within an hour. Three days later, a brokerage house issued a strong buy recommendation and Datagen's share price went up 20%. Gable then proceeded to gather data on the stock and prepared a report that he dated the day before the stock purchase. Gable has:

- A. violated the Standards by using the recommendation of another brokerage firm in his report.
- B. violated the Standards by improper use of inside information.
- C. violated the Standards by not having a reasonable basis for making the purchase of Datagen.

76. Several years ago, Hilton and Ross, a full service investment firm, managed the initial public offering of eCom, Inc. Now, eCom wants Hilton and Ross to underwrite its secondary public offering. A senior manager at Hilton and Ross asks Brent Whitman, CFA, one of its equity analysts, to write a favorable research report on eCom to help make the underwriting a success. Whitman conducts a thorough analysis of eCom and concludes that the company has serious problems that do not suggest a favorable financial outlook.

Nevertheless, Whitman writes a favorable report because he is fearful of losing his job.

Hilton and Ross publicly distribute a report that only contains a buy recommendation and a brief description of the basic characteristics of eCom. Whitman has violated:

- A. Both Standard I(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.
- B. Standard V(A) Diligence and Reasonable Basis only.
- C. Standard I(B) Independence and Objectivity, only.

77. A client calls his money manager and asks the manager to liquidate a large portion of his assets under management for an emergency. The manager warns the client of the risk of selling many assets quickly but says that he will try to get the client the best possible price. This is a violation of:

- A. Standard V(A), Diligence and Reasonable Basis.
- B. Standard III(C), Suitability.
- C. none of the Standards listed here.

78. Peggy Green, CFA, is a research analyst following Brown Co. All the information she has gathered suggests the stock should be rated a weak "hold." During a recent lunch, Green overheard another analyst say that the stock should be rated a "buy." Green returns to her office and issues a "buy" recommendation. Green:
- A. has violated CFA Institute Standards of Professional Conduct because she did not have a reasonable and adequate basis for making this recommendation.
 - B. has violated CFA Institute Standards of Professional Conduct because she failed to distinguish between fact and opinion.
 - C. violated CFA Institute Standards of Professional Conduct because she did not seek approval of the change from her firm's compliance director.
79. An analyst writes a report and includes the forecasts of an econometric model developed by the firm's research department. The analyst identifies the source of the forecast and includes all the relevant statistics concerning the model and his opinion of the model's accuracy. With respect to Standard V(A), Diligence and Reasonable Basis, the analyst has:
- A. complied with the Standard.
 - B. violated the Standard by including quantitative details in a report.
 - C. violated the Standard by not testing the model himself.
80. An analyst receives a research report from a colleague. The colleague's report has an elaborate table with performance data on publicly traded stocks. The colleague says the data in the table consists of measures provided by Standard & Poor's. The analyst finds the table a useful reference for a report she is writing. She uses several pieces of data from the table. The analyst is potentially in violation of:
- A. Standard V(A), Diligence and Reasonable Basis, if she does not first verify the data in the table is accurate.
 - B. No particular standard because this is appropriate activity.
 - C. Standard I(C), Misrepresentation, concerning the use of the work of others.

81. Kirsten Kelso, CFA, is a research analyst at an independent research firm. Kelso is part of a team of analysts who focus on the automobile industry. Recently, Kelso disagreed with two research sell recommendations written by her team even though she felt confident the research process was properly conducted. In a webcast open to all institutional but not retail clients, Kelso states “even though my name is on the sell reports, these stocks are a buy in part because sales and share prices for both auto companies will rise significantly due to strong demand for their vehicles.” Kelso’s actions would least likely violate which of the following CFA Institute Standards of Professional Conduct?
- A. Fair Dealing
 - B. Communication with Clients
 - C. Diligence and Reasonable Basis
82. An analyst is told by his supervisor that when he feels he should write a buy recommendation he is free to do so, and when he feels he should write a sell recommendation he should check with the supervisor first. This practice is most likely:
- A. in violation of Standard V(B), Communications with Clients and Prospective Clients.
 - B. consistent with the Code of Ethics and Standards of Professional Conduct.
 - C. in violation of Standard I(B) Independence and Objectivity.
83. Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. It is Hatfield's opinion that interest rates will fall in the near future. Based upon this, Hatfield begins increasing the bond allocation of each portfolio. In order to comply with Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to:
- A. perform both of these functions.
 - B. make sure that the change is identical for both clients.
 - C. inform the clients of the change and tell them it is based upon an opinion and not a fact.
84. Lee Hurst, CFA, is an equity research analyst who has recently left a large firm to start independent practice. He is able to re-create several of his previous recommendation reports, based on his clear recollection of supporting documentation he compiled at his

- previous employer. He publishes the reports and obtains several new clients. Hurst is most likely:
- A. not in violation of any Standard.
 - B. in violation of Standard V(C) Record Retention.
 - C. in violation of Standard V(A) Diligence and Reasonable Basis.
85. Ethyl Redd recently joined Bloomington Investments as a research analyst. After spending an afternoon looking through the research team's archives, Redd is not sure Bloomington maintains the records that support the team's analysis and recommendations for the minimum 7-year period called for by Standard V(C), Record Retention. What is Redd's most appropriate course of action?
- A. Decline to participate in any new research until she can verify that the firm is in compliance with the Standard.
 - B. Keep her own copies of the relevant records and maintain them at home for a minimum 7-year holding period.
 - C. Review the firm's record retention procedures with her supervisor or compliance officer to ensure that they comply with the Standard, or suggest ways to bring them into compliance.
86. Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:
- A. identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.
 - B. verify the suitability of the investment recommendation before placing the client's order
 - C. document the details of the conversation with the client with regard to his investment recommendation.

87. Heidi Katz is a CFA candidate and an analyst at a pension consulting firm. Her father is a major shareholder and managing director at Saturn Partners, a large hedge fund. When assisting in an alternative manager search for a pension client, Katz plans to recommend Saturn's market-neutral strategy because she feels it meets all of the pension plan's criteria. Given this situation, the best course of action for Katz is to:
- A. not present this strategy to the client and recommend another strategy.
 - B. disclose the potential conflict to the pension client when discussing this recommendation.
 - C. disclose the potential conflict to her employer and follow their guidance regarding disclosure of her relationship to the client.
88. Jamison is a junior research analyst with Howard & Howard, a brokerage and investment banking firm. Howard & Howard's mergers and acquisitions department has represented the Britland Company in all of its acquisitions for the past 20 years. Two of Howard & Howard's senior officers are directors of various Britland subsidiaries. Jamison has been asked to write a research report on Britland. What is the best course of action for her to follow?
- A. Jamison may write the report but must refrain from expressing any opinions because of the special relationships between the two companies
 - B. Jamison should not write the report because the two Howard & Howard officers serve as directors for subsidiaries of Britland
 - C. Jamison may write the report if she discloses the special relationships with the company in the report
89. Fern Baldwin, CFA, as a representative for Fernholz Investment Management, is compensated by a base salary plus a percentage of fees generated. In addition, she receives a quarterly performance bonus on a particular client's fee if the client's account increases in value by more than 2 points over a benchmark index. Baldwin had a meeting with a prospect in which she described the firm's investment approach but did not disclose her base salary, percentage fee, or bonus.
- Baldwin has:

- A. not violated the Standards because there is no conflict of interest with a potential prospect in the employment arrangements.
 - B. violated the Standards by not disclosing her salary, fee percentage, and performance bonus.
 - C. Cviolated the Standards by not disclosing her performance bonus.
90. Ryan Brown, CFA, is an analyst with a large insurance company. His personal portfolio includes a significant investment in QRS common stock that his firm does not currently follow. The director of the research department asked Brown to analyze QRS and write a report about its investment potential. Based on CFA Institute Standards of Professional Conduct, Brown is required to:
- A. disclose the ownership of the stock to his employer and in the report.
 - B. sell his shares of QRS before completing the report.
 - C. decline to write the report without specific approval of his supervisor.
91. Arthur Harrow, CFA, is a pharmaceuticals analyst at Dominion Asset Management. His supervisor directs him to prepare separate research reports on Miracle Drug Company and Wonder Drug Company. Harrow serves on the board of Miracle and owns 2000 shares of Wonder, which is currently trading at \$25 per share.
- According to CFA Institute Standards of Professional Conduct, which of the following actions, if any, is Harrow required to take if he writes the research reports?
- A. Harrow must disclose to Dominion his relationship with Miracle but not his ownership of shares in Wonder.
 - B. Harrow must disclose to Dominion both his relationship with Miracle and his ownership of shares in Wonder.
 - C. Harrow must disclose to Dominion his ownership of shares in Wonder but not his relationship with Miracle.
92. William Wong, CFA, is an equity analyst with Hayswick Securities. Based on his fundamental analysis, Wong concludes that the stock of a company he follows, Nolvec Inc., is substantially undervalued and will experience a large price increase. He delays

revising his recommendation on the stock from “hold” to “buy” to allow his brother to buy shares at the current price. Wong is least likely to have violated the CFA Institute Standards of Professional Conduct related to:

- A. duty to clients.
- B. reasonable basis.
- C. priority of transactions.

93. Isaac Jones, CFA, wishes to buy Maxima common stock for some of his clients' accounts. Jones also wishes to purchase Maxima for his personal account. In accordance with CFA Institute Standards, Jones:

- A. may purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients.
- B. may purchase Maxima for his personal account, but the transactions for his clients must take priority.
- C. must disclose his personal account purchase, in writing and in advance, to his clients and employer.

94. Kazuya Kato, CFA, is a widely followed economist at a global investment bank. When Kato opines on economic trends, markets react by moving stock valuations considerably. When Kato receives information of a temporary oversupply of rare earth metals, he issues a forecast that price trends for rare earth metals will be down significantly on a long-term basis. Kato also secretly sells his report to a widely followed Internet site. Prior to issuing this forecast, Kato emailed all portfolio managers at his bank with a copy of his report indicating that his opinion would be reversed shortly so there will be trading opportunities. Kato most likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. Market Manipulation.
- B. Priority of Transactions.
- C. Additional Compensation Arrangements.

95. An analyst, who is a CFA Institute member, manages a high-grade bond mutual fund. This is his only professional responsibility. When the analyst comes across a speculative stock investment that he feels is a good investment for his personal portfolio, the analyst:
- A. may invest in the stock because the analyst would not purchase the stock for the bond portfolio he manages.
 - B. is in violation of Standard IV(A), Loyalty to Employer, by spending time analyzing stocks when he should only analyze bonds.
 - C. must notify his supervisor about the stock according to Standard VI(B), Priority of Transactions, to see if it is appropriate for the portfolio that he manages.
96. Samuel Goldstein, CFA, is an analyst for Tamarack Securities. Goldstein's father, Reuben, has a client account at Tamarack. In ordering trades, Goldstein should place orders in:
- A. his clients' and his father's accounts in the first group and his personal accounts in the second group.
 - B. his clients' accounts first, his father's account second, and his account last.
 - C. all accounts simultaneously.
97. Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has most likely violated:
- A. violated Standard II(A) Material Nonpublic Information.
 - B. Standard VI(B) Priority of Transactions.
 - C. violated Standard IV(A) Loyalty.

98. Lindsay Gordon is a Level II CFA candidate living in San Francisco. Gordon's best friend, Steve Haney, also a Level II candidate, is living in Munich. Because of the time difference between Munich and San Francisco, Gordon suggests that Haney call Gordon during the Munich exam lunch break to discuss the morning exam. Haney makes the call on exam day.

Which of the following statements regarding Gordon and Haney is most accurate?

- A. Gordon is in violation of the Code and Standards, but Haney is not in violation.
- B. Both Gordon and Haney are in violation of the Code and Standards.
- C. Neither Gordon nor Haney is in violation of the Code and Standards.

99. Ron Vasquez is registered to sit for the Level II CFA exam. Unfortunately, Vasquez has failed the exam the past two years. In his frustration, Vasquez posted the following comment on a popular internet bulletin board: "I believe that CFA Institute is intentionally limiting the number of charterholders in order to increase its cash flow by continuing to fail candidates. Just look at the pass rates."

Which of the following statements regarding Vasquez's conduct is most accurate? Vasquez is:

- A. in violation of both Standard I(D) Misconduct and Standard VII(A) Conduct as Participants in CFA Institute Programs.
- B. not in violation of Standard I(D) Misconduct or Standard VII(A) Conduct as Participants in CFA Institute Programs
- C. in violation of Standard VII(A) Conduct as Participants in CFA Institute Programs, but not in violation of Standard I(D) Misconduct.

100. While on a business trip, John Hayes, CFA, found a notebook that had apparently been left in the waiting area of an airport. Hayes opened the notebook and read the title: Confidential: Level II CFA Examination. Before returning the notebook to CFA Institute, he made a copy and gave it to Linda Sacket, one of his firm's analysts, who was a candidate for Level II of the CFA examination. Sacket read the questions and guideline answers before taking the Level II examination. According to the CFA Institute Standards of Professional Conduct:

- A. Sacket violated the Standards, but Hayes did not.

- B. Hayes violated the Standards, but Sacket did not.
- C. both Hayes and Sacket violated the Standards.

101. Bob White is a new CFA charterholder and he is updating his resume and company biography (bio) to reflect this accomplishment. In his bio, he states that he successfully passed all three CFA exams in three consecutive years. On his resume he adds the following line: "CFA, 2013, CFA Society of Pittsburgh". Are either his bio or his resume in violation of the Standards regarding referencing the CFA designation and program?

- A. No.
- B. Yes, his resume is incorrect.
- C. Yes, both his bio and his resume are in violation of the Standards.

102. Jean Davis and Brian Taylor were recently hired by a local brokerage. Davis is registered for the Level II CFA exam and does not reference the CFA designation on her business card. In her marketing materials, Davis factually describes CFA requirements and notes that she expects to pass in June. Taylor passed the Level II exam and has not yet registered for the Level III CFA exam. Taylor also does not reference the CFA designation on his card and writes in his marketing materials that he passed both Levels I and II of the CFA exam on his first try, which is true. Have Davis or Taylor violated any CFA Institute Standards of Professional Conduct?

- A. Both violated the Standards.
- B. Only one violated the Standards.
- C. Neither violated the Standards.

103. Anderson, Baker and Chang all received their CFA charters and ordered new business cards. Their business cards are as follows:


- G. J. Anderson, CFA
- B. K. Baker, Chartered Financial Analyst
- M. S. Chang, C.F.A


Which of the business cards use the CFA marks improperly?


- A. Baker and Chang.



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B. Chang.

C. Anderson and Chang.



R3 Guidance for standards I-VII

甄选题答案

R3 Guidance for standards I-VII

10. Answer: A

Standard I(A)—Knowledge of the Law requires Members and Candidates to comply with the more strict law, rules, or regulations and follow the highest requirement, which in this case would be the CFA Institute Standards of Professional Conduct. Standard II(A)—Material Nonpublic Information would also apply as Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information. Disclosure that she meets local mandatory legal requirements, not the more strict law, rule, or regulation of the Code and Standards, would not alleviate the member from following the Code and Standards.

11. Answer: C.

If finding colleagues involved in illegal actions, must dissociate, and report to compliance department or supervisor.

12. Answer: C

Reporting violations of the Standards to the CFA Institute may be appropriate for concerns about a member's conduct, but is not the proper avenue for reporting corporate malfeasance in general. Members must dissociate from any activity they know is illegal and if Smith cannot get his firm for correct the misleading financial report he must leave the board. There are intermediate steps that Smith can take in order to remedy the situation. Smith may bring his concerns to the other board members in order to get the firm to stop the illegal activity. If the board will not remedy the situation, dissociating from the board may be Smith's only way to remain in compliance with the Code and Standards.

13. Answer: C

Green needs to follow Standard I(A) -- Knowledge of the law. In Country A, Green must adhere to the Code and Standards because Country A's laws are less strict. In Country B, Green must also adhere to the Code and Standards because Country B has no securities laws. Because Country C's applicable law is stricter than the requirements of the Code and Standards, Green must adhere to the laws of Country C.

14. Answer: B

Berry should report this information only to her immediate supervisor. Subsequently, she and her supervisor may consult with legal counsel concerning the competing issues in this situation. For the present, she should avoid disclosure to colleagues who do not need to know the information and she should also avoid disclosure to clients.

15. Answer: A

Members are encouraged -- but not required -- to report violations of others. Standard I(A), Knowledge of the Law. Prohibition against knowingly practicing or assisting in violation of laws, rules, and regulations. If White knows that someone has engaged in a possible illegal activity, she should: (1) report the finding to the appropriate supervisory person at her firm, (2) if the situation is not remedied, disassociate herself from the situation, and (3) seek legal advice to see what other actions, such as notifying the proper regulatory agency, should be taken.

16. Answer: C

Under Standard I(A), Salvatore must, as a CFA charterholder, apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. In this instance the stricter laws of Oldworld, where Salvatore is licensed, apply to prohibit the gifts, even though the gifts are offered in Newworld.

17. Answer: C

To abide by the Standards, employees who work for foreign-based firms are required to apply the stricter of the foreign (here, U.S.) law, the domestic (here, Japanese) law, or CFA Institute standards.

18. Answer: C

See Standard I(A) "Knowledge of the Law." Brynne should update his understanding of applicable laws and regulatory standards relating to his position, although he is not required to be an expert in compliance. Relying only on firm policies and procedures is not sufficient.

19.Answer: B

Standard I(A), Knowledge of the Law requires members who have knowledge of colleagues engaging in illegal activities to disassociate from the activity and urge their firms to persuade the individual to cease such activity. Reporting to regulatory authorities may be prudent in certain circumstances, but is not required. Reporting to CFA Institute is not required.

20.Answer: A

Standard I(B) Independence and Objectivity. Analysts should pay for their own travel accommodations if the location is accessible by normal means. In this situation payment is acceptable because the location is out of the way and the purpose of the trip is all business.

21.Answer: C

Nielsen is not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

22.Answer: B

Standard I(B) requires members to maintain independence and objectivity. A visit by an analyst to an out- of-the-way site may be paid for by a client company host as long as the analyst can maintain objectivity. Members should encourage clients to limit the use of corporate aircraft, but exceptions can be made if transportation would not otherwise be available or would be inefficient.

23.Answer: C

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others

without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard.

24. Answer: A

Bagenot complied with Standard I(C), which permits publishing factual information from Standard & Poor's without acknowledgment and using excerpts with acknowledgment. Wain committed plagiarism because she failed to give specific references for the quotations that she used.

25. Answer: A.

This belongs to typographical error. Robert did not check the numbers before public and it's not on purpose. So he did not violate misrepresentation.

26. Answer: B

Under Standard I(C), members are forbidden from guaranteeing a specific rate of return on volatile investments. Therefore, the statement is in violation of the Standard

27. Answer: C

Hooper violated Standard I(D) because he repeatedly engaged in conduct that involves dishonest conduct. This violation occurred despite the fact that his offenses do not relate directly to his professional activities. However, Hooper's conduct reflects poorly on his professional reputation and integrity.

28. Answer: C

Hall engaged in professional misconduct because her act involved dishonesty, fraud, and deceit.

29. Answer: B

Any act involving lying, cheating, stealing, or other dishonest conduct that reflects adversely on the charterholder's professional activities is a violation of Standard I(D). Although the crime did not relate to the investment profession, it certainly reflected adversely on the charterholder professionally.

30. Answer: B

Any activity that reflects adversely on a member's professional reputation, integrity, or competence is a violation of Standard I(D) Misconduct. Standard I(D) is generally not intended to extend to legal transgressions resulting from acts of civil disobedience in support of personal beliefs. A member can pursue an employment opportunity with a competitor as long as the member abides by the Standards related to Duties to Employers.

31. Answer: A.

If it is not because of deceitful conduct, personal bankruptcy doesn't violate code and standards.

32. Answer: A

According to Standard II(A) Material Nonpublic Information, an analyst must not act or cause others to act on material nonpublic information. The information is material to the company's future profitability, and is nonpublic because the lawsuit has not yet been filed and is not yet a matter of public record.

33. Answer: A

There is no provision for CFA Institute to issue fines to members. Members may not use material nonpublic information for trading purposes. Nonmaterial, nonpublic information may be used together with analysis of public information under the Mosaic Theory.

34. Answer: A

Selling Knoll stock from either the pension fund or Hess's personal account would be trading on

material nonpublic information, in violation of Standard II(A) Material Nonpublic Information.

35.Solution: A.

The information is considered as material nonpublic information as it has not been released, and it would have a clear impact on the company. No trading is allowed on material nonpublic information.

36.Answer: C

Waters is not in violation of Standard II(B), Market Manipulation. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume. Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.

37.Answer: A.

Short selling is a investment strategy and does not necessarily violate any aspect of the Code and Standards.

38.Answer: C

Because of the time and expense involved in voting a proxy, Members and Candidates are not required to vote every proxy. A cost benefit analysis can be performed to determine if it is necessary to vote a proxy. Standard III(A) requires that client brokerage be used to benefit the client. Quarterly statements to clients are recommended.

39.Answer: C

Using soft dollars for the purchase of office furniture does not benefit clients and is a violation. Purchasing research reports with soft dollars is not a violation, but the advisor should ensure that research purchased with client brokerage will benefit her clients.

40.Answer: B

The physical and information barrier erected between departments to prevent communication of material nonpublic information from one department to another is called a "firewall." Departments should be separated. For example, the investment banking and corporate finance departments of a brokerage firm should be segregated from the sales and research departments. Family member accounts who are also clients should be treated like any other client accounts and should not be given special treatment or disadvantaged.

41.Answer: B

Bulow is most likely in violation of Standard I(C) "Misrepresentation." The web site information is erroneous, and needs to be updated to match the firm's current practices.

42.Answer: A

Since the programs are the property of the organization, the analyst can only use them for the organization. It does not matter whether the analyst is an employee or not. Personal use of the programs without permission from the charitable organization is dishonest and prohibited.

43.Answer: C

In accordance with Standard III(C) Suitability, a member or candidate acting as an investment advisor must make a reasonable inquiry into the client's objectives, constraints, and investment experience prior to making any investment recommendation. The Standard recommends preparing an Investment Policy Statement (IPS) for the client. Investments the client has made previously may be relevant to the client's investment experience, but Standard III(C) does not require the advisor to obtain specific information about which securities the client has previously invested in, although current holdings may be quite relevant.

44.Answer: A.

Ronan should be responsible for the mandate of the mutual fund, not a single client. Therefore ignoring the request of the client and complying with the IPS is not a violation.

45. Answer: B

Standard III(C) Suitability requires that members managing portfolios take investment actions that are consistent with their portfolio's stated objectives and constraints. The fund's mandate emphasizes income over capital gains. Adding a non-dividend paying stock to the portfolio is a departure from that mandate.

46. Answer: B

Rangen's actions are inconsistent with Standard III(C) Suitability because his investment actions are neither appropriate nor suitable for each client. Even if his clients were aware of the risks, the portfolios that he constructed are inconsistent with their financial needs. Although Rangen relies upon recommendations from his firm's research department, he cannot shift blame to his employer because he must follow recommendations that are in the best interests of his clients.

47. Answer: B

It is a violation of Standard III(B) because the advisor should act first on behalf of existing clients whose needs and characteristics she already knows. It is a violation of Standard III(C) because she has never met the prospect and does not know if the new ideas are appropriate for the prospect. Thus, "both of these" is the best response.

48. Answer: B

Standard III(D) requires fair representations concerning past and potential future performance. Unless the list of the "winners" includes all the positions that the firm held, the manager is misrepresenting past performance. The following statement is questionable: "Their double-digit returns indicate the type of returns I can earn for you," but the action of submitting a partial list is clearly a violation. The manager should have information on past performance in writing.

49. Answer: A

Reporting the historical returns of all assets now in the fund introduces a survivorship bias. Also, the advertisement is misleading because the fund just came into existence and has no historical record. Thus, the firm has misled the public as to their performance history.

50. Answer: A

A is correct because the Standards require members to make reasonable efforts to make sure performance information is fair, accurate, and complete. The Standards do not require compliance with Global Investment Performance Standards (GIPS), auditing, or verification requirements [Standard III(D)].

B is incorrect because the Standards do not require that results be audited or verified unless claiming compliance with GIPS.

C is incorrect because the Standards do not require compliance with GIPS.

51. Answer: B.

B is correct because the performance results he presents do not provide a fair and accurate representation of performance.

52. Answer: B

Under Standard III(E), members are bound to preserve the confidentiality of information that they receive in the scope of their employment. There is nothing in the information to suggest that any illegal act had occurred. He is, therefore, obligated not to disclose the information to others until it becomes public.

53. Answer: C

C is correct as Standard IV(A) calls for employees to be loyal to their employer by not causing harm. If Botha released a contradictory research recommendation report to clients, it could possibly cause confusion amongst clients and embarrassment to the firm.

A is incorrect as Botha does not need to disassociate from the research report even though she does not agree with the conclusion made as she acknowledges the process was sound.

B is incorrect. While Botha does not need to disassociate from the research report, she could still ask for her name to be removed from the report without violating any Standard

54. Answer: B

B is correct because members and candidates are required to disclose any compensation arrangement to their employers that involves performing tasks or services that their employers can charge for. Disclosure is required even if the activities occur during non-work hours.

C is incorrect because being hired by a competing firm does not constitute a violation of Standard IV(A). In addition, Davidson is not utilizing confidential information from Integrity to solicit former clients. Although Davidson had a list of client contacts prepared while at Integrity, his new employer arranges the meetings.

A is incorrect because his consulting business is a violation of Standard IV(A)

55. Answer: C.

C is correct because he cannot use the investment performance history without permission from his prior employer.

56. Answer: C

C is correct because clients should be treated fairly and impartially [Standard III(B)]. In addition, the flexible trading terms allow the hedge fund manager to enrich themselves and is a violation of Standard II(A), concerning trading on material nonpublic information.

This is also a conflict of interest [Standard VI(A)–Disclosure of Conflicts].

A is incorrect because violations of several Standards have occurred.

B is incorrect because a violation of the Fair Dealing standard has occurred.

57. Answer: B

Standard IV(A) permits Hatcher to make preparations to begin a new practice, such as leasing office space, furniture, and other equipment, but not to engage in the other activities that may violate her duty to employer.

58. Answer: B

Brynne is in violation of Standard IV(A) "Loyalty." Employer records include items stored in any

medium including home computers.

59.Answer: B

According to Standard IV(A), Perez is not prevented from soliciting clients as long as he is working from memory and publicly available information rather than a list generated while he was still with the former employer.

60.Answer: B

Douglas may plan and prepare to compete with his current employer, but may not begin competing until his resignation is effective or he gets permission from his employer. Members must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.

61.Answer: B.

Members who plan to engage in independent practice for compensation should not render services until receiving written consent from their employer.

62.Answer: B

Standard IV(A) and IV(B) requires that Marchant inform both Middleton and his existing clients.

63.Answer: C

Members are required to disclose to their employer in writing all monetary compensation or other benefit they receive in addition to the employer's compensation. The discounting of West's commissions is a benefit that must be disclosed.

64.Answer: B

Standard IV(B) requires that members obtain written consent from all parties involved before

accepting monetary compensation or other benefits that they receive for their services that are in addition to compensation or benefits conferred by a member's employer. The phrase "all parties" is referring to Saul's employer and Fairway's Board of Directors.

65. Answer: B

B is correct because a supervisor's responsibilities relate to detecting and preventing violations by anyone subject to their supervision or authority regarding activities they supervise. Ndenda had no way of detecting and/or preventing Rutabingwa from cheating during the CFA exam, if in fact that is what he did, an event she did not attend.

A is incorrect because Ndenda does not have supervisory responsibility for Rutabingwa when he takes his CFA exam.

C is incorrect because supervisor responsibility in this case does not apply, as Rutabingwa was not under the supervision of Ndenda when he took the CFA exam.

66. Answer: A.

Ailey is responsible to ensure that anyone subject to her supervision complies with applicable laws, rules, regulations, and the Code and Standards.

67. Answer: B

According to Standard IV(C) Responsibilities of Supervisors, Stewart should decline in writing to accept supervisory responsibility until the firm adopts adequate compliance procedures.

68. Answer: A

According to Standard IV(C) Responsibilities of Supervisors, if Crane believes the company's compliance procedures are not adequate, Crane should decline supervisory responsibilities in writing until an adequate system is adopted.

69. Answer: B.

Lewis must investigate the reliability of the information before making an investment recommendation based on the information.

70.Answer: C.

According to the Standards, members must promptly disclose to clients any changes to their investment process. Alvarez should notify his clients promptly of the change in his investment process and strategy.

71.Answer: C

Mack is obliged to disclose the conflict of interest regarding her company's IPO and to consider both the appropriateness and the suitability of the investment for her client. She has apparently failed in both respects.

72.Answer:C

C is correct, as Standard (V)–Diligence and a Reasonable Basis requires members and candidates to have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action. Relying solely upon attendance at a one-day conference listening to industry experts to make an investment recommendation, especially when the industry experts have based their recommendations upon price data only, would not meet the requirements of the Code and Standards with regard to Diligence and a Reasonable Basis.

A is incorrect because there has not been a violation of this standard.

B is incorrect, as even though the portfolio manager has allocated a portion of her portfolio to an asset class she recommended for clients there has not been a violation of this Standard since the manager has not front run any of her clients.

73.Answer: A.

The Standards do not require on-site storage.

74.Answer: A

A is correct because the analyst violated Standard III(B)–Fair Dealing by selectively distributing the recommendation only to investment banking clients despite being responsible for making investment recommendations to all group clients. Schleif should distribute the change in recommendation to all clients who received the initial recommendation, not just those within the investment banking division of the group

B is incorrect because Schleif did not violate Standard VI(B)—Priority of Transactions as she did not conduct transactions in her personal account until a week after the changed recommendation was distributed to clients.

C is incorrect as now that the coding error is corrected the analyst has a reasonable basis for changing her recommendation as required by Standard V(A)—Diligence and Reasonable Basis.

75. Answer: C

Standard V(A) requires members to have a reasonable and adequate basis for taking investment actions. Overhearing a conversation does not provide adequate basis. It is not improper to use overheard conversations that do not include inside information, nor is it improper to reference another firm's report to substantiate adequate basis, if the other report is justified.

76. Answer: A

Whitman violated Standard V(A) Diligence and Reasonable Basis because he did not have a reasonable and adequate basis for issuing a favorable recommendation. Whitman violated Standard I(B) Independence and Objectivity because he did not act independently in issuing his recommendation but instead was influenced by senior management at Hilton and Ross.

77. Answer: C

The money manager has done his duty. He has warned the client of the risk and made no explicit promises concerning what he can and cannot do.

78. Answer: A

Analysts are required to have a reasonable and adequate basis, supported by appropriate research and investigation, for their recommendations.

79. Answer: A

Including quantitative details in a report is not a violation of the Standard. The analyst has more

of an obligation to give an opinion on the accuracy of the model than withhold such an opinion. Although the analyst should use reasonable care to verify information included in a report, retesting models developed by the research department of a firm is not explicitly required.

80. Answer: A

Since the data in the table supposedly comes from Standard & Poor's, a recognized data source, the analyst does not have to cite the source of the data. However, the analyst needs to use reasonable care and verify that the data is accurate by going back to the source. Had the analyst printed the table prepared by her colleague without acknowledgement, the analyst would have violated Standard I(C), Misrepresentation.

81. Answer: C

C is correct because the recommendation is based on a reasonable and adequate research process, so the analyst could follow the research team's opinion, as required by Standard V(A)–Diligence and Reasonable Basis.

A is incorrect because the analyst can express her disagreement with the team by documenting her difference of opinion, but Standard III(B)–Fair Dealing requires members and candidates to treat all clients fairly when disseminating investment recommendations or making material changes to prior investment recommendations or when taking investment action. The discussion with institutional clients is inappropriate as the analyst is making selective disclosure. Members and candidates must make every effort to treat all individual and institutional clients in a fair and impartial manner.

B is incorrect because the analyst has not separated fact from opinion as required by Standard V(B)–Communication with Clients and Prospective Clients when she makes a verbal buy recommendation on the auto companies.

82. Answer: C

The policy dictated by the supervisor would infringe upon the analyst's independence and objectivity. It may discourage the analyst from making sell recommendations and, furthermore,

present the opportunity for the supervisor to try and change the analyst's mind.

83.Answer: C

According to Standard V(B), the analyst must inform the clients of the change and tell them it is based upon an opinion and not a fact. Making an identical change in two portfolios may be a violation of this standard if the needs of the clients are not identical.

84.Answer: B

Hurst is most likely in violation of Standard V(C) Record Retention because the supporting documentation is unavailable. He needs to recreate the supporting records based on information gathered through public sources or the covered company. He may have a reasonable basis for his recommendations and have been diligent in his analysis, but must reconstruct the records of this analysis before issuing the reports.

85.Answer: B

Standard V(C), Record Retention requires that members maintain all records supporting analysis, recommendations, actions, and all other investment related communications with clients and prospects. The recommended procedures for compliance with Standard V(C) state that the record-keeping requirement is generally the firm's responsibility. These records are the property of the firm, so Redd keeping her own copies at home could potentially violate Standard IV(A), Loyalty. Redd's best course of action is to review the firm's procedures with her supervisor and recommend any improvements that are necessary to bring them into compliance with Standard V(C).

86.Answer: C

Standard V(C) Record Retention requires that Members and Candidates document all recommendation and communications with clients. McCoy should document the details of the

conversation, including any resulting investment decisions and/or actions. The suitability of the investment should have already been considered before the recommendation and McCoy should not execute the order until the client instructs him to. Identifying other clients for this investment would fall under Standard III(B) Fair Dealing.

87. Answer: B

B is correct because Standard VI(A) requires disclosure of conflicts but does not prohibit members from making recommendations as long as the potential conflicts are appropriately disclosed.

A is incorrect because if Katz believes the Saturn strategy is the best available choice she can make this recommendation, but she must disclose the relationship with her father's fund.

C is incorrect because even if her employer guides Katz not to disclose a potential conflict, she must still disclose any reasonable influences on her objectivity when making a recommendation to a client or prospective client.

88. Answer: C.

This question involves Standard VI(A)—Disclosure of Conflicts. The question establishes a conflict of interest in which an analyst, Jamison, is asked to write a research report on a company that is a client of the analyst's employer. In addition, two directors of the company are senior officers of Jamison's employer. Both facts establish that there are conflicts of interest that must be disclosed by Jamison in her research report. Answer B is incorrect because an analyst is not prevented from writing a report simply because of the special relationship the analyst's employer has with the company as long as that relationship is disclosed. Answer A is incorrect because whether or not Jamison expresses any opinions in the report is irrelevant to her duty to disclose a conflict of interest. Not expressing opinions does not relieve the analyst of the responsibility to disclose the special relationships between the two companies.

89. Answer: C

Standard VI(A) requires members to disclose all matters that could reasonably be expected to impair the member's ability to make unbiased and objective recommendations. Compensation based on a percentage of fees generated does not create an inherent bias. If, however, a performance bonus is paid for investment results, it may unduly encourage the manager to take

more risk than is proper and prudent, and so the existence of the bonus opportunity must be disclosed to the client.

90.Answer: A

Standard VI(A) (Disclosure of Conflicts) requires that Brown make full disclosure of all matters that could impair his objectivity. Brown needs to disclose his personal holding in QRS stock not only to his employer, but also in any subsequent reports that he authors. Getting the approval of his supervisor does not solve this conflict problem for Brown. Selling his shares of QRS would be one solution to Brown's situation, however this action is not required by the Standards.

91.Answer: B

Standard VI(A) requires that Harrow disclose to Dominion conflicts that reasonably could be expected to interfere with his independence and objectivity. Both Harrow's relationship with Miracle and his ownership of a substantial dollar amount of Wonder's shares represent potential conflicts of interest and must be disclosed prominently and in clear language in the research report, giving clients the ability to weigh the possible effects of these potential conflicts on his analysis and conclusions.

92.Answer: B

B is correct because there is nothing to suggest that Wong does not have a reasonable basis for his conclusion related to Nolvec [Standard V(A)]. A is incorrect because by delaying the revision of his recommendation so that his brother can buy shares at a lower price, he has violated the CFA Institute Standards relating to duty to clients [Standard III(A), Standard VI(B)].

C is incorrect because by delaying the revision of his recommendation so that his brother can buy shares at a lower price, he has violated the CFA Institute Standards relating to priority of transactions.

93.Answer: B

In accordance with Standard VI(B) Priority of Transactions, employer and client transactions must take priority over any personal transactions, meaning any transactions in which the member or candidate is the beneficial owner. Disclosure is not enough; in this instance the personal transaction would take priority over the clients' transactions, which is a violation. "May purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients" is incorrect because Jones could be purchasing the stock ahead of clients, which is not permitted.

94. Answer: B

B is correct because Kato exaggerated the potential for negative price movement with rare earth metals and violated Standard II(B)–Market Manipulation by aiming to profit on the volatility created by his actions. Standard II(B) requires that members and candidates uphold market integrity by prohibiting market manipulation. Market manipulation includes the dissemination of false or misleading information and transactions that deceive or would be likely to mislead market participants by distorting the price-setting mechanism of financial instruments. Standard IV(B)–Additional Compensation Arrangements was violated when he sold his report to the internet site. Standard VI(B)–Priority of Transactions has not been violated as it relates to investment transactions for clients and employers having priority over Member or Candidate transactions.

A is incorrect because Kato exaggerated the potential for negative price movement with rare earth metals and violated Standard II(B)–Market Manipulation by aiming to profit on the volatility created by his actions. Standard II(B) requires that members and candidates uphold market integrity by prohibiting market manipulation. Market manipulation includes the dissemination of false or misleading information and transactions that deceive or would be likely to mislead market participants by distorting the price-setting mechanism of financial instruments.

C is incorrect because Standard IV(B)–Additional Compensation Arrangements was violated when he sold his report to the internet site.

95. Answer: A

The problem says the analyst "came across" the speculative stock investment. We do not know if the analyst neglected his duties. Since such an investment is clearly not appropriate for a high-

grade bond fund, the analyst may invest in the stock without any restrictions relating to the fund.

96. Answer: A

Standard VI(B), Priority of Transactions, provides that transactions for clients have priority over personal trades. Family accounts that are considered client accounts receive the same treatment as client accounts.

97. Answer: C

By expressing his investment analysis on his personal blog ahead of his employer, Malone deprived his employer of the benefits of his skills and abilities and therefore violated Standard IV(A) Loyalty. Malone did not possess material nonpublic information about WestAir and no transactions have taken place.

98. Answer: B

Both Gordon and Haney violated Standard VII(A) Conduct as Participants in CFA Institute Programs by compromising the integrity of the exam.

99. Answer: B

Standard VII(A) Conduct as Participants in CFA Institute Programs does not prohibit expressing opinions about the program or the CFA Institute. Thus, Vasquez is not in violation. Nothing in the facts indicates a violation of Standard I(D), Misconduct. Standard I(D) deals with professional conduct involving dishonesty, fraud, or deceit.

100. Answer: C

Both violated Standard VII(A) Conduct as Participants in CFA Institute Programs because they compromised the validity of the examinations.

101.Answer: B

B is correct because his resume should read CFA, 2013, CFA Institute. The resume is incorrect because it lists the CFA Society of Pittsburgh instead of the CFA Institute as the organization associated with the CFA designation.

A is incorrect because his resume is wrong.

C is incorrect because stating that he passed the three exams in three years is simply a statement of fact (assuming it is true) and permissible.

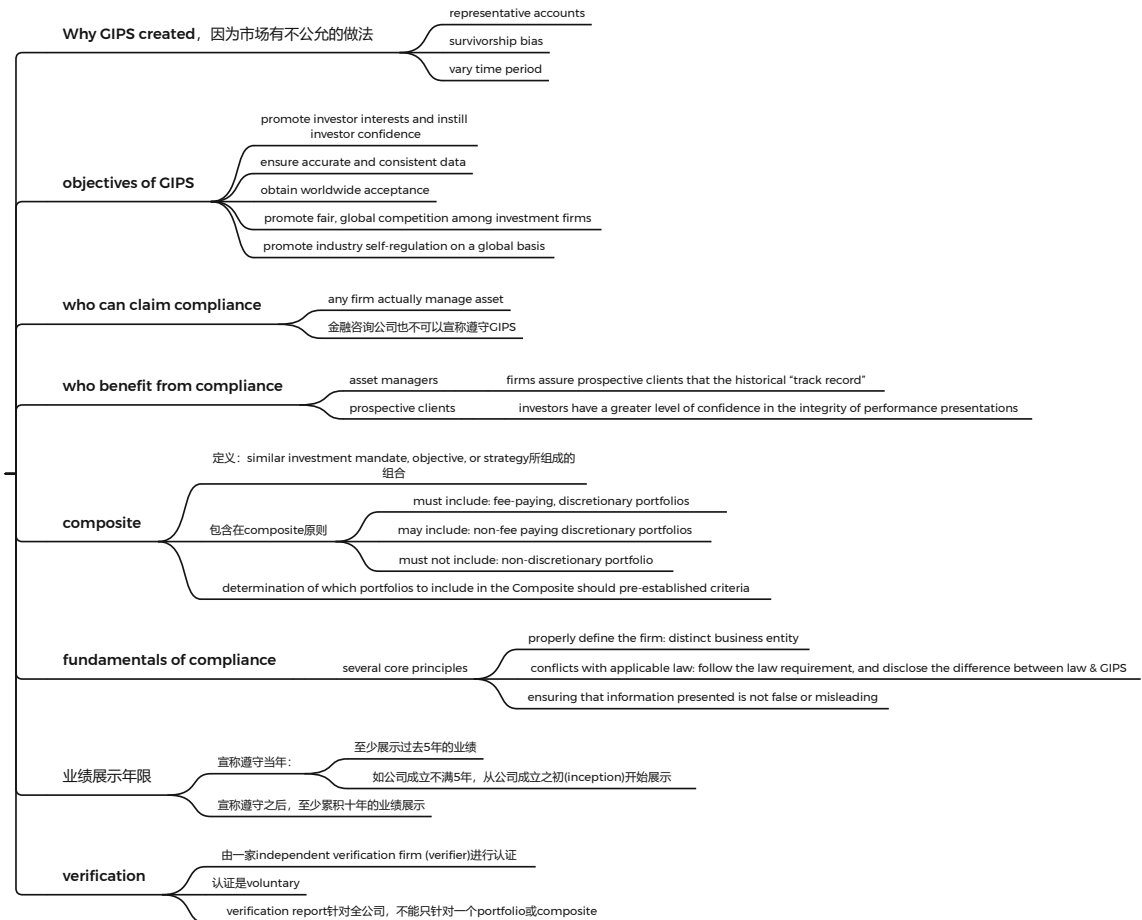
102.Answer: B

Davis violated Standard VII(B) Reference to the CFA Institute, the CFA Designation, and the CFA Program because she stated a future date in which she expected to pass. Candidates who imply partial designations or expected completion dates violate this Standard. Stating a fact about having passed each of the first two levels on the first try does not violate the Standard.

103.Answer: B

Consistent with Standard VII(B), members must use the CFA marks in a proper manner. Members may indicate "CFA" or "Chartered Financial Analyst" after their names, but the designation should not be given more prominence than that used in printing the name itself. Also, periods should not be used to separate the letters.

Ethics (L1)
R4-5 Global investment performance standards (GIPS)



R4 Global investment performance standards (GIPS)

LOS 4.b: Explain the construction and purpose of composites in performance reporting.

104. Lora Murphy has an account at Ferrell Investments, a GIPS-compliant firm. Murphy invests in small-cap value stocks and pays Ferrell a standard fee to execute her buy and sell orders. According to GIPS, is Ferrell required to include Murphy's portfolio in their small-cap value stock composite?

- A. No, because constructing composites is voluntary.
- B. No, because the portfolio is non-discretionary.
- C. Yes, because the portfolio is fee-paying.

105. Viroqua DeSoto, CFA, is reading a discussion in an online forum about the construction and purpose of composites in performance reporting. She finds these statements from participants:

Statement 1: The purpose of composites is to let investors know how well a firm has performed managing different types of securities or investment strategies.

Statement 2: A managed portfolio should have a performance history of at least one year before the firm assigns it to a composite.

With respect to both statements:

- A. both are correct.
- B. both are incorrect.
- C. only one is correct.

LOS 4.c: Explain the requirements for verification.

106. Which of the following statements about a GIPS-compliant firm's verification of GIPS compliance is most accurate? Verification is:

- A. required, and may be performed by the firm's internal auditors.
- B. required, and must be performed by an independent third party.

C. optional, but if chosen it must be performed by an independent third party.

107. Which of the following statements regarding Global Investment Performance Standards (GIPS) is most accurate?

- A. GIPS requires that all fee-paying discretionary portfolios be included in composites defined according to investment objective or similar strategy and firms must show GIPS compliant
- B. GIPS is intended to foster the notion of a world-wide regulatory body to oversee investment performance and measurement on a global scale.
- C. GIPS exists as a best or maximum worldwide standard where local or country specific law for investment performance measurement does not exist.

108. Longhorn Investments prepares its performance presentations in accordance with Global Investment Performance Standards (GIPS). As part of its employee benefits package, Longhorn does not charge a fee to its employees for managing their portfolios. When calculating total firm assets for the purpose of GIPS compliance, Longhorn should:

- A. include these employee portfolios.
- B. not include these employee portfolios because they are in non-fee-paying accounts.
- C. only include those employee portfolios that are in discretionary accounts.

109. Assume that on January 1, 2005, a 15-year old firm with no Global Investment Performance Standards (GIPS) compliant performance history wishes to claim compliance with the GIPS standards. Which of the following accurately reflects the appropriate action for the firm to take?

- A. Comply with the GIPS standards for the 5-year period January 1, 2000, through December 31, 2004, and report five additional years of non-GIPS-compliant performance and disclosure of why
- B. Comply with GIPS for the year beginning January 1, 2004, and report nine additional years of performance history (ten total) and disclose why the earlier years are not GIPS compliant.

- C. Comply with GIPS for the year beginning January 1, 2004, and report four additional years of performance history (five total) and disclose why the earlier years are not GIPS compliant.
110. The El Rey Investment Company, located in Barcelona, Spain, is in the process of adopting the Global Investment Performance Standards (GIPS) for the current fiscal year. One of the GIPS standards is in direct conflict with Spanish investment reporting regulations. In order to be in full compliance with GIPS, El Rey must:
- A. comply with the local regulation and make full disclosure of the conflict.
 - B. choose either the GIPS standard or the local regulation, whichever is the more conservative approach, and make full disclosure of the conflict.
 - C. comply with the GIPS standard and make full disclosure of the conflict.
111. The Global Investment Performance Standards (GIPS) were designed to be applied with the goal of full disclosure and fair representation of investment performance in all instances EXCEPT:
- A. when a firm or composite has been in existence for less than five years, in which case, less stringent standards apply.
 - B. when applicable local laws or regulations conflict with the GIPS, in which case, firms must comply with local laws and fully disclose the conflict.
 - C. when a composite includes nondiscretionary funds to which the GIPS are not applicable.
112. ABC Investment Management Company claims compliance with GIPS, but the GIPS compliance is not verified. Does this company comply with GIPS?
- A. Yes
 - B. No, because the company should be verified
 - C. No, because the internal control personnel should conduct the verification work
113. A GIPS-compliant investment firm presents its historical record for a global growth stock composite. Which of the following method is least likely to violate the CFA institute Standard?

- A. Excluded terminated accounts
 - B. No portfolio below minimum asset level is included
 - C. Use a top-performing portfolio as representative of firm's results
114. Wonder Investment Company (WIC) claims compliance with the GIPS Standards. The compliant presentation includes a footnote states that WIC complies with the GIPS standards except for its private equity investments. Did WIC violate the GIPS standards?
- A. Yes, because they cannot claim compliance unless all requirements of the GIPS are met
 - B. No, because the footnotes meet the requirements of the Standards
 - C. No, because the provisions do not apply to the private equity investments
115. According to the GIPS, which of the following statements about composite construction is least accurate?
- A. All actual, fee-paying, discretionary portfolio must be included in at least one composite
 - B. Non-fee-paying discretionary portfolio may be included in a composite
 - C. Non-discretionary portfolios may be included in a firm's composites
116. If ABC parent company claims that ABC company is complied with the GIPS standards, its subsidiary:
- A. Should claim compliance with the GIPS standards.
 - B. Not need to make any claim.
 - C. Should inquire its parent company.



**R4 Global investment performance standards (GIPS)
甄选题答案**

R4 Global investment performance standards (GIPS)

LOS 4.b: Explain the construction and purpose of composites in performance reporting.

104.Answer: B

To comply with GIPS, a firm must include all fee-paying discretionary portfolios in at least one composite. Discretionary portfolios are those for which the firm makes investment decisions. Because this portfolio's owner is making her own investment decisions, the portfolio is non-discretionary and should not be included in the firm's composites.

105.Answer: C

DeSoto should agree with Statement 1 but disagree with Statement 2. Reporting on the performance of composites gives clients and prospects information about the firm's success in managing various types of securities or investment styles. The firm should identify which composite each managed portfolio will be included in before the portfolio's performance is known, to prevent the firm from including portfolios selectively and artificially creating composites with superior returns.

LOS 4.c: Explain the requirements for verification.

106.Answer: C

Verification of GIPS compliance is recommended but not required. If a firm chooses to obtain GIPS verification, it is required to be performed by an independent third party.

107.Answer: A

GIPS provides a minimum, not a maximum, standard for investment performance measurement and/or presentation. GIPS requires that all fee-paying discretionary portfolios be included in a

composite, not rank ordered, to prevent firms from presenting the results of their best portfolios. GIPS is intended to foster the notion of self-regulation, not a world-wide regulatory body, to oversee investment performance and measurement.

108.Answer: A

When calculating the firm's total assets for a GIPS-compliant presentation, the market value of all discretionary and non-discretionary assets should be included, regardless of whether the account is fee-paying or not.

109.Answer: A

In order to claim GIPS compliance, a firm must present at least five years of annual investment performance that is compliant with GIPS. If a firm or composite is less than five years old, the performance since the inception of the firm or composite must be presented. A firm may link a non-GIPS-compliant performance record to their 5-year compliant history as long as only GIPS-compliant performance is presented for periods after January 1, 2000, and the firm discloses the periods of non-compliance with an explanation of why the presentation is not GIPS compliant.

110.Answer: A

A GIPS requirement is that firms comply with the local law and make full disclosure of the conflict.

111.Answer: B

In the case of a conflict, GIPS require that firms comply with local or country-specific laws or regulations rather than GIPS, but must fully disclose the nature and scope of the conflict.

112.Answer: A.

Firms are encouraged to pursue independent verification from a third party on a firm-wide basis, verification is not an obligation.

113.Answer: B.

According to GIPS composite construction, A, C are not permitted.

114.Answer: A.

Firms must meet all the requirements in the GIPS standards and cannot claim partial compliance.

115.Answer: C.

C is correct because non-discretionary portfolios must not be included in a firm's composites.

116.Answer: A.

The firm is defined as the whole ABC company.



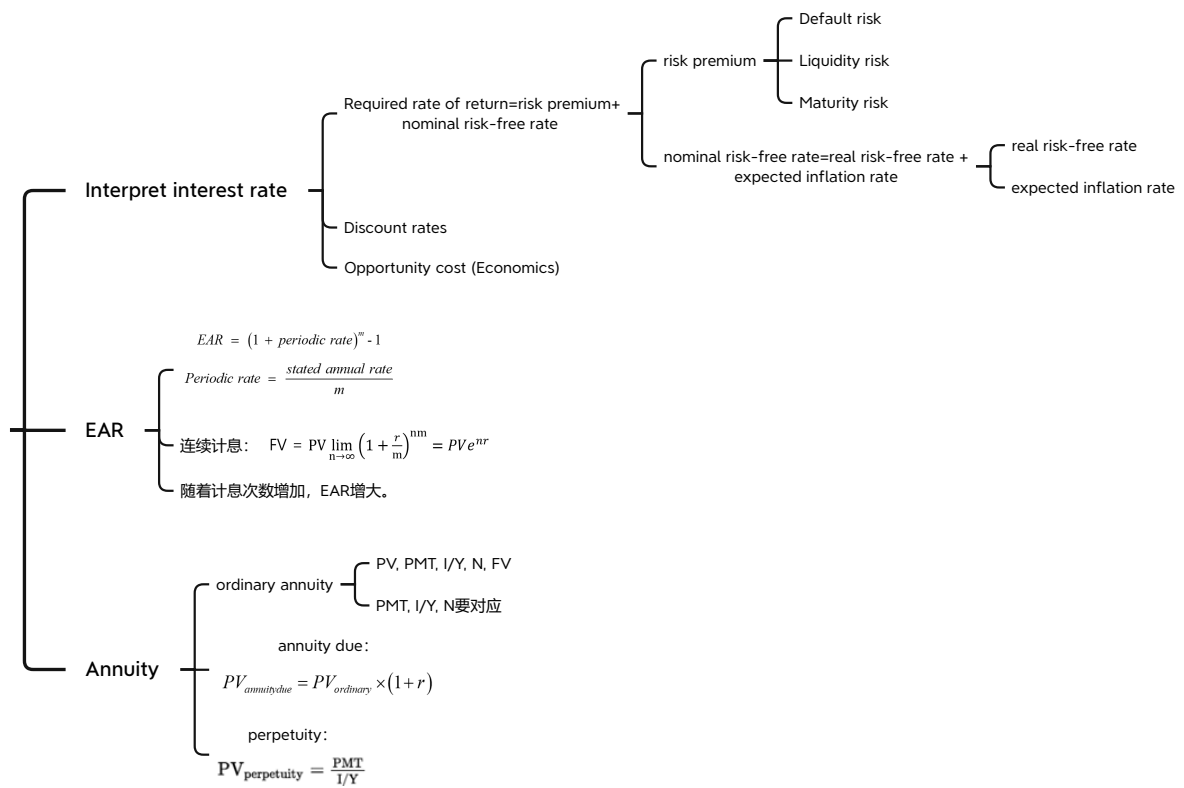
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Quantitative Methods

R6 The Time Value of Money



R6 The Time Value of Money

LOS 6.c: Solve time value of money problems for different frequencies of compounding.

1. A stated interest rate of 9% compounded semiannually results in an effective annual rate closest to:
 - A. 9.2%.
 - B. 9.1%.
 - C. 9.3%.
2. As the number of compounding periods increases, what is the effect on the annual percentage rate (APR) and the effective annual rate (EAR)?
 - A. APR remains the same, EAR increases.
 - B. APR increases, EAR remains the same.
 - C. APR increases, EAR increases.

LOS 6.e2: Cash flow

3. Jamie Morgan needs to accumulate \$2,000 in 18 months. If she can earn 6% at the bank, compounded quarterly, how much must she deposit today?
 - A. \$1,832.61.
 - B. \$1,840.45.
 - C. \$1,829.08.
4. If \$1,000 is invested at the beginning of the year at an annual rate of 48%, compounded quarterly, what would that investment be worth at the end of the year?
 - A. \$1,048.
 - B. \$4,798.
 - C. \$1,574.

LOS 6.e3: an ordinary annuity, an annuity due

5. Bill Jones is creating a charitable trust to provide six annual payments of \$20,000 each, beginning next year. How much must Jones set aside now at 10% interest compounded annually to meet the required disbursement
- A. \$87,105.21.
B. \$95,815.74.
C. \$154,312.20.
6. You borrow \$15,000 to buy a car. The loan is to be paid of in monthly payments over 5 years at 12% annual interest. What is the amount of each payment?
- A. \$546.
B. \$334.
C. \$456.
7. Given an 8.5% discount rate, an asset that generates cash flows of \$10 in Year 1, -\$20 in Year 2, \$10 in Year 3, and is then sold for \$150 at the end of Year 4, has a present value of:
- A. \$135.58.
B. \$163.42.
C. \$108.29.
8. Find the future value of the following uneven cash flow stream. Assume end of the year payments. The discount rate is 12%.

| | |
|--------|--------|
| Year 1 | -2,000 |
| Year 2 | -3,000 |
| Year 3 | 6,000 |
| Year 4 | 25,000 |
| Year 5 | 30,000 |

- A. \$58,164.58.

B. \$33,004.15.

C. \$65,144.33.

LOS 6f. solving time value of money problems

9. Which of the following statements about compounding and interest rates is least accurate?

A. Present values and discount rates move in opposite directions.

B. On monthly compounded loans, the effective annual rate (EAR) will exceed the annual percentage rate (APR).

C. All else equal, the longer the term of a loan, the lower will be the total interest you pay.

10. Elise Corrs, hedge fund manager and avid downhill skier, was recently granted permission to take a 4 months sabbatical. During the sabbatical, (scheduled to start in 11 months), Corrs will ski at approximately 12 resorts located in the Austrian, Italian, and Swiss Alps. Corrs estimates that she will need \$6,000 at the beginning of each month for expenses that month. (She has already financed her initial travel and equipment costs.) Her financial planner estimates that she will earn an annual rate of 8.5% during her savings period and an annual rate of return during her sabbatical of 9.5%. How much does she need to put in her savings account at the end of each month for the next 11 months to ensure the cash flow she needs over her sabbatical? Each month, Corrs should save approximately:

A. \$2,070.

B. \$2,080.

C. \$2,065.

11. Jim Franklin recently purchased a home for \$300,000 on which he made a down payment of \$100,000. He obtained a 30-year mortgage to finance the balance on which he pays a fixed annual rate of 6%. If he makes regular, fixed monthly payments, what loan balance will remain just after the 48th payment?

A. \$192,444.

B. \$189,229.

- C. \$186,109.
12. Nikki Ali and Donald Ankard borrowed \$15,000 to help finance their wedding and reception. The annual payment loan carries a term of seven years and an 11% interest rate. Respectively, the amount of the first payment that is interest and the amount of the second payment that is principal are approximately:
- A. \$1,650; \$1,468.
B. \$1,650; \$1,702.
C. \$1,468; \$1,702.
13. Marc Schmitz borrows \$20,000 to be paid back in four equal annual payments at an interest rate of 8%. The interest amount in the second year's payment would be:
- A. \$6038.40.
B. \$1116.90.
C. \$1244.90.



R6 The Time Value of Money

甄选题答案

R6 The Time Value of Money

LOS 6.c: Solve time value of money problems for different frequencies of compounding.

1.Answer: A

Semiannual rate = $0.09 / 2 = 0.045$.

Effective annual rate = $(1 + 0.045)^2 - 1 = 0.09203$, or 9.203%.

2.Answer: A

The APR remains the same since the APR is computed as (interest per period) × (number of compounding periods in 1 year). As the frequency of compounding increases, the interest rate per period decreases leaving the original APR unchanged. However, the EAR increases with the frequency of compounding.

LOS 6.e2: Cash flow

3.Answer: C

Each quarter of a year is comprised of 3 months thus $N = 18 / 3 = 6$; $I/Y = 6 / 4 = 1.5$;
 $PMT = 0$; $FV = 2,000$; $CPT \rightarrow PV = \$1,829.08$.

4.Answer: A

$N = 1 \times 4 = 4$; $I/Y = 48/4 = 12$; $PMT = 0$; $PV = -1,000$; $CPT \rightarrow FV = 1,573.52$.

LOS 6.e3: an ordinary annuity, an annuity due

5.Answer: A

$N = 6$, $PMT = -\$20,000$, $I/Y = 10\%$, $FV = 0$, Compute $PV \rightarrow \$87,105.21$.

6.Answer: B

$I = 12 / 12 = 1$; $N = 5 \times 12 = 60$; $PV = 15,000$; $CPT \rightarrow PMT = 333.67$

7. Answer: C

Using your cash flow keys, $CF_0 = 0$; $CF_1 = 10$; $CF_2 = -20$; $CF_3 = 10$; $CF_4 = 150$; $I/Y = 8.5$; $NPV = \$108.29$.

8. Answer: A

$N = 4$; $I/Y = 12$; $PMT = 0$; $PV = -2,000$; $CPT \rightarrow FV = -3,147.04$

$N = 3$; $I/Y = 12$; $PMT = 0$; $PV = -3,000$; $CPT \rightarrow FV = -4,214.78$

$N = 2$; $I/Y = 12$; $PMT = 0$; $PV = 6,000$; $CPT \rightarrow FV = 7,526.40$

$N = 1$; $I/Y = 12$; $PMT = 0$; $PV = 25,000$; $CPT \rightarrow FV = 28,000.00$

$N = 0$; $I/Y = 12$; $PMT = 0$; $PV = 30,000$; $CPT \rightarrow FV = 30,000.00$

Sum the cash flows: $\$58,164.58$.

Alternative calculation solution: $-2,000 \times 1.12^4 - 3,000 \times 1.12^3 + 6,000 \times 1.12^2 + 25,000 \times 1.12 + 30,000 = \$58,164.58$.

LOS 6f. solving time value of money problems

9. Answer: C

Since the proportion of each payment going toward the principal decreases as the original loan maturity increases, the total dollars interest paid over the life of the loan also increases.

10. Answer: B

This is a two-step problem. First, we need to calculate the present value of the amount she needs over her sabbatical. (This amount will be in the form of an annuity due since she requires the payment at the beginning of the month.) Then, we will use future value formulas to determine how much she needs to save each month.

Step 1: Calculate present value of amount required during the sabbatical

Using a financial calculator:

Set to BEGIN Mode, then $N = 4$; $I/Y = 9.5 / 12 = 0.79167$; $PMT = 6,000$; $FV = 0$;

CPT → PV = -23,719.

Step 2: Calculate amount to save each month

Using a financial calculator:

Make sure it is set to END mode, then $N = 11$; $I/Y = 8.5 / 12.0 = 0.70833$;

PV = 0; FV = 23,719; CPT → PMT = -2,081, or approximately \$2,080.

11. Answer: B

With monthly payments, we need a monthly rate:

$6\% / 12 = 0.5\%$. Next, solve for the monthly payment. The calculator keystrokes are:

PV = 200,000; FV = 0; N = 360; I/Y = 0.5; CPT → PMT = - $\$1,199.10$. The balance at

any time on an amortizing loan is the present value of the remaining payments.

There are 312 payments remaining after the 48th payment is made. The loan

balance at this point is: PMT = -1,199.10; FV = 0; N = 312; I/Y = 0.5; CPT → PV

= $\$189,228.90$.

Note that only N has to be changed to calculate this new present value; the other inputs are unchanged.

12. Answer: B

Step 1: Calculate the annual payment.

Using a financial calculator (remember to clear your registers):

PV = 15,000; FV = 0; I/Y = 11;

N = 7; PMT = $\$3,183$

Step 2: Calculate the portion of the first payment that is interest

Interest₁ = Principal × Interest rate = $(15,000 \times 0.11) = 1,650$

Step 3: Calculate the portion of the second payment that is principal.

Principal₁ = Payment – Interest₁ = $3,183 - 1,650 = 1,533$

(interest calculation is from Step 2)

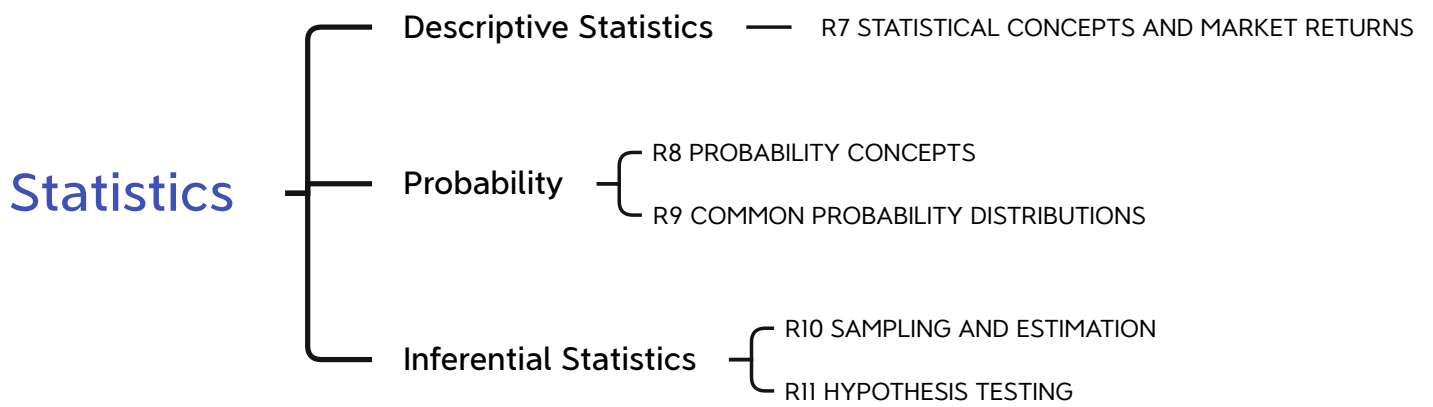
$$\text{Interest}_2 = \text{Principal remaining} \times \text{Interest rate} = [(15,000 - 1,533) \times 0.11] = 1,481$$

$$\text{Principal}_2 = \text{Payment} - \text{Interest}_1 = 3,183 - 1,481 = 1,702$$

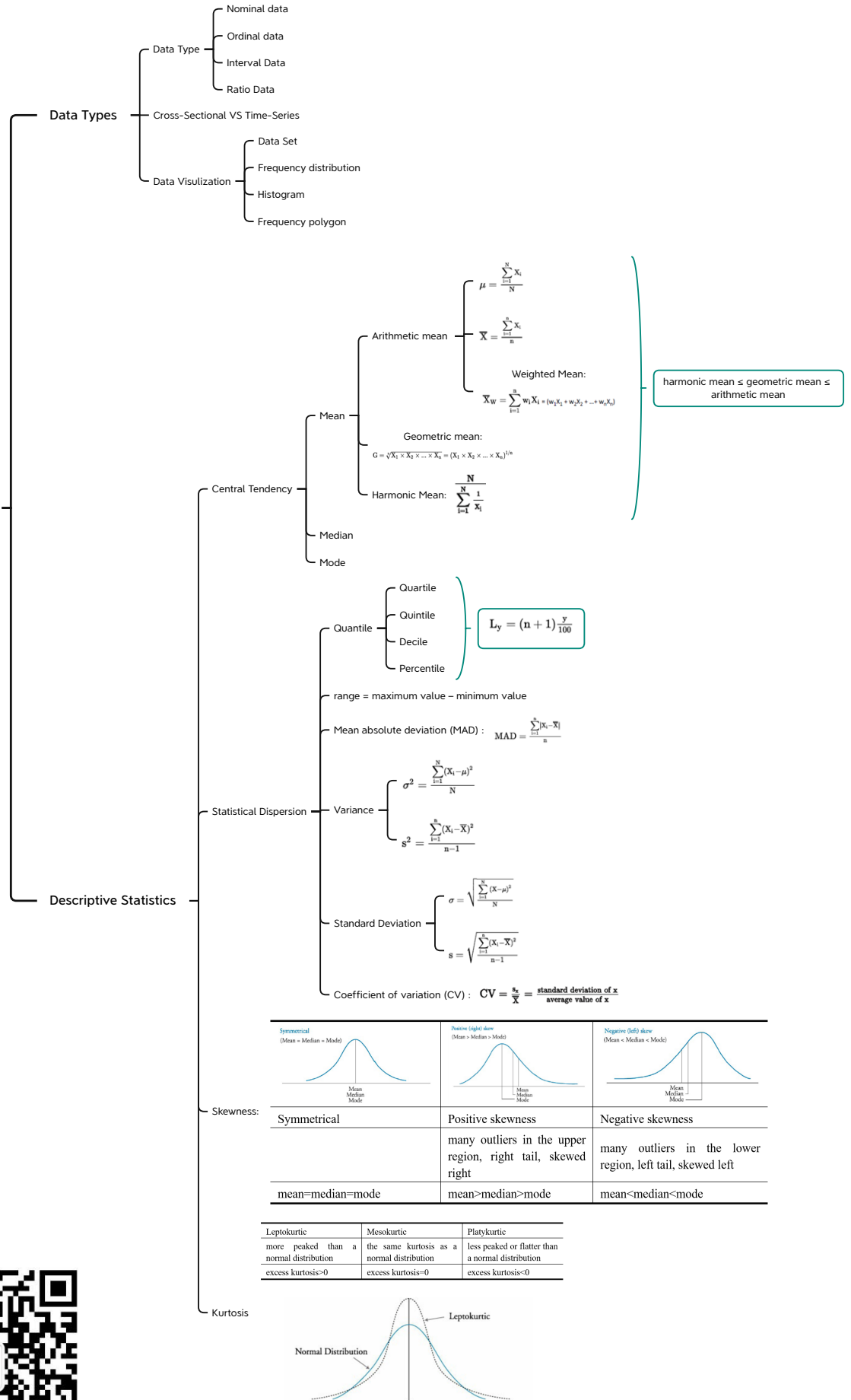
13. Answer: C

With $PV = 20,000$, $N = 4$, $I/Y = 8$, computed $Pmt = 6,038.42$. Interest (Yr1) =

$$20,000(0.08) = 1600. \text{ Interest (Yr2)} = (20,000 - (6038.42 - 1600))(0.08) = 1244.93$$



R7 STATISTICAL CONCEPTS AND MARKET RETURNS



harmonic mean ≤ geometric mean ≤ arithmetic mean

$$L_y = (n + 1) \frac{y}{100}$$



R7 STATISTICAL CONCEPTS AND MARKET RETURNS

LOS 7.a: Distinguish between descriptive statistics and inferential statistics, between a population and a sample, and among the types of measurement scales.

14. What is the main difference between descriptive statistics and inferential statistics?

Descriptive statistics are:

- A. used to make forecasts about the likelihood of upcoming events while inferential statistics are used to summarize any data set.
- B. used to summarize a large data set while inferential statistics involves procedures used to make forecasts or judgments about a large data set by examining a smaller sample.
- C. used to summarize data while inferential statistics are used to obtain precise information about a large data set.

LOS 7.e: Calculate and interpret measures of central tendency, including the population mean, sample mean, arithmetic mean, weighted average or mean, geometric mean, harmonic mean, median, and mode.

15. Which measure of central tendency can be used for both numerical and categorical variables?

- A. Median.
- B. Mode.
- C. Mean.

16. Given the following annual returns, what are the geometric and arithmetic mean returns, respectively?

| 2002 | 2003 | 2004 | 2005 | 2006 |
|------|------|------|------|------|
| 15% | 2% | 5% | -7% | 0% |

- A. 1.45%; 3.00%.
- B. 2.75%; 5.80%.

- C. 2.75%; 3.00%.
17. Which of the following statements about a normal distribution is least accurate?
- A. The mean and variance completely define a normal distribution.
- B. Approximately 68% of the observations lie within ± 1 standard deviation of the mean.
- C. A normal distribution has excess kurtosis of three.
18. For the investments shown in the table below:

| Investment | Return (%) |
|------------|------------|
| A | 12 |
| B | 14 |
| C | 9 |
| D | 13 |
| E | 7 |
| F | 8 |
| G | 12 |

Which of the following statements is most accurate?

- A. The mean is equal to the median.
- B. The mean is equal to the mode.
- C. The median is equal to the mode.
19. Which of the following statements about the median is least accurate? It is:
- A. equal to the mode in a normal distribution.
- B. equal to the 50th percentile.
- C. more affected by extreme values than the mean.
20. An investor in a mutual fund earns a 25% return the first year, loses 25% in the second year, gains 30% in the third year, and then loses 30% in the fourth year. The average annual compound growth rate of this investment is closest to:
- A. 0.0%.
- B. -3.9%.
- C. 5.6%.

LOS 7.f: Calculate and interpret quartiles, quintiles, deciles, and percentiles.

21. The following data points are observed returns.

4.2%, 6.8%, 7.0%, 10.9%, 11.6%, 14.4%, 17.0%, 19.0%, 22.5%

What return lies at the 70th percentile (70% of returns lie below this return)?

- A. 17.0%.
- B. 14.4%.
- C. 19.0%.

22. What are the median and the third quintile of the following data points, respectively?

9.2%, 10.1%, 11.5%, 11.9%, 12.2%, 12.8%,

13.1%, 13.6%, 13.9%, 14.2%, 14.8%, 14.9%, 15.4%

- A. 12.8%; 13.6%.
- B. 13.1%; 13.6%.
- C. 13.1%; 13.7%.

LOS 7.g: Calculate and interpret 1) a range and a mean absolute deviation and 2) the variance and standard deviation of a population and of a sample.

23. Distribution X has a mean of 10 and a standard deviation of 20. Distribution Y is identical to Distribution X in all respects except that each observation in Distribution Y is three times the value of a corresponding observation in Distribution X. The mean and standard deviation of Distribution Y are closest to:

- | | Mean | Standard deviation |
|----|------|--------------------|
| A. | 10 | 60 |
| B. | 30 | 20 |
| C. | 30 | 60 |

24. Find the respective mean and the mean absolute deviation (MAD) of a series of stock market returns.

| | |
|--------|-----|
| Year 1 | 14% |
| Year 2 | 20% |
| Year 3 | 24% |
| Year 4 | 22% |

- A. 20%; 12%.
- B. 22%; 3%.
- C. 20%; 3%.

LOS 7.h: Calculate and interpret the proportion of observations falling within a specified number of standard deviations of the mean using Chebyshev's inequality.

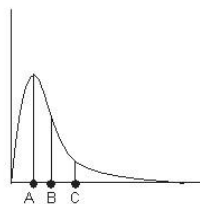
25. Assume a sample of beer prices is negatively skewed. Approximately what percentage of the distribution lies within plus or minus 2.40 standard deviations of the mean?
- A. 58.3%.
 - B. 95.5%.
 - C. 82.6%.

LOS 7.i: Calculate and interpret the coefficient of variation.

26. An investor is considering two investments. Stock A has a mean annual return of 16% and a standard deviation of 14%. Stock B has a mean annual return of 20% and a standard deviation of 30%. Calculate the coefficient of variation (CV) of each stock and determine if Stock A has less dispersion or more dispersion relative to B. Stock A's CV is:
- A. 0.875, and thus has less dispersion relative to the mean than Stock B.
 - B. 1.14, and thus has less dispersion relative to the mean than Stock B.
 - C. 1.14, and thus has more dispersion relative to the mean than Stock B.

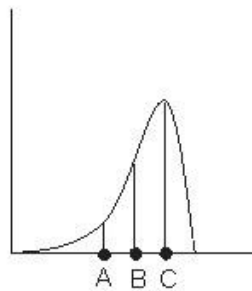
LOS 7.k: Describe the relative locations of the mean, median, and mode for a unimodal, nonsymmetrical distribution.

27. Consider the following graph of a distribution for the prices for various bottles of California-produced wine.



Which of the following statements about this distribution is least accurate?

- A. The distribution is positively skewed.
 - B. Approximately 68% of observations fall within one standard deviation of the mean.
 - C. The graph could be of the sample \$16, \$12, \$15, \$12, \$17, \$30 (ignore graph scale).
28. In a positively skewed distribution, the:
- A. mean is greater than the median.
 - B. median equals the mean.
 - C. mean is less than the median.
29. Consider the following graph of a distribution for the prices of various bottles of champagne.



Which of the following statements regarding the distribution is least accurate?

- A. The mean value will be less than the mode.
 - B. The distribution is negatively skewed.
 - C. Point A represents the mode..
30. Twenty Level I CFA candidates in a study group took a practice exam and want to determine the distribution of their scores. When they grade their exams they discover that one of them skipped an ethics question and subsequently fled in the rest of his answers in the wrong places, leaving him with a much lower score than the rest of the group. If they include this candidate's score, their distribution will most likely:
- A. have a mean that is less than its median.
 - B. be positively skewed.

C. have a mode that is less than its median.

31. Which of the following statements concerning skewness is least accurate? A distribution with:

- A. a distribution with skew equal to 1 is not symmetrical.
- B. negative skewness has a large number of outliers on its left side.
- C. positive skewness has a long left tail.

LOS 7.I: Explain measures of sample skewness and kurtosis.

32. Which of the following statements concerning kurtosis is least accurate?

- A. A distribution that is more peaked than a normal distribution is leptokurtic.
- B. A leptokurtic distribution has excess kurtosis less than zero.
- C. A leptokurtic distribution has fatter tails than a normal distribution.

33. A distribution that is more peaked than normal is:

- A. skewed.
- B. platykurtic.
- C. leptokurtic.

34. Which of the following statements concerning a distribution with positive skewness and positive excess kurtosis is least accurate?

- A. It has a lower percentage of small deviations from the mean than a normal distribution.
- B. The mean will be greater than the mode.
- C. It has fatter tails than a normal distribution.

R7 STATISTICAL CONCEPTS AND MARKET RETURNS
甄选题答案

R7 STATISTICAL CONCEPTS AND MARKET RETURNS

LOS 7.a: Distinguish between descriptive statistics and inferential statistics, between a population and a sample, and among the types of measurement scales.

14.Answer: B

Descriptive statistics are used to summarize a large data set while inferential statistics are based on procedures used to make forecasts or judgments about a large data set by examining a smaller set of data.

LOS 7.e: Calculate and interpret measures of central tendency, including the population mean, sample mean, arithmetic mean, weighted average or mean, geometric mean, harmonic mean, median, and mode.

15.Answer: B

The mode is the only choice that makes sense since you cannot take an average or median of categorical data such as bond ratings (AAA, AA, A, etc.) but the mode is simply the most frequently occurring number or category.

16.Answer: C

Geometric Mean: $(1.15 \times 1.02 \times 1.05 \times 0.93 \times 1.0)^{1/5} - 1 = 1.14541/5 - 1 = 2.75\%$

Arithmetic Mean: $(15\% + 2\% + 5\% - 7\% + 0\%) / 5 = 3.00\%$

17.Answer: C

Even though normal curves have different sizes, they all have identical shape characteristics. The kurtosis for all normal distributions is three; an excess kurtosis of three would indicate a leptokurtic distribution. Both remaining choices are true.

18.Answer: C

The median is the mid-point or central number of returns arranged from highest to lowest or lowest to highest. In this case: 7, 8, 9, 12, 12, 13, 14. The median return is 12%. The mode is the return that occurs most frequently. In this case, 12% is also the mode. The mean is $75 / 7 = 10.71\%$.

19. Answer: C

Median is less influenced by outliers since the median is computed as the "middle" observation. On the other hand, all of the data including outliers are used in computing the mean. Both remaining statements are true regarding the median.

20. Answer: B

The average annual compound growth rate is calculated as: $[(1 + 0.25)(1 - 0.25)(1 + 0.30)(1 - 0.30)]^{0.25} - 1 = 0.9611 - 1 = -0.0389$ or -3.89%

LOS 7.f: Calculate and interpret quartiles, quintiles, deciles, and percentiles.

21. Answer: A

With 9 observations, the location of the 70th percentile is $(9 + 1)(70 / 100) = 7$. The seventh observation in ascending order is 17.0%.

22. Answer: C

The median is the midpoint of the data points. In this case there are 13 data points and the midpoint is the 7th term.

The formula for determining quantiles is: $L_y = (n + 1)(y) / (100)$. Here, we are looking for the third quintile (60% of the observations lie below) and the formula is: $(14)(60) / (100) = 8.4$. The third quintile falls between 13.6% and 13.9%, the 8th and 9th numbers from the left. Since L is not a whole number, we interpolate as: $0.136 + (0.40)(0.139 - 0.136) = 0.1372$, or 13.7%.

LOS 7.g: Calculate and interpret 1) a range and a mean absolute deviation and 2) the variance and standard deviation of a population and of a sample.

23. Answer: C

If the observations in Distribution Y are three times the observations in Distribution X, the mean and standard deviation of Distribution Y are three times the mean and standard deviation of Distribution X. The standard deviation of a data set measured in feet, for example, will be 3 times the standard deviation of the data set measured in yards (since 1 yard = 3 feet).

24. Answer: C

$$(14 + 20 + 24 + 22) / 4 = 20 \text{ (mean)}$$

Take the absolute value of the differences and divide by n:

$$\text{MAD} = [|14 - 20| + |20 - 20| + |24 - 20| + |22 - 20|] / 4 = 3\%$$

LOS 7.h: Calculate and interpret the proportion of observations falling within a specified number of standard deviations of the mean using Chebyshev's inequality.

25. Answer: C

Use Chebyshev's Inequality to calculate this answer. Chebyshev's Inequality states that for any set of observations, the proportion of observations that lie within k standard deviations of the mean is at least $1 - 1/k^2$. We can use Chebyshev's Inequality to measure the minimum amount of dispersion whether the distribution is normal or skewed. Here, $1 - (1 / 2.42) = 1 - 0.17361 = 0.82639$, or 82.6%.

LOS 7.i: Calculate and interpret the coefficient of variation.

26. Answer: A

$$\text{CV stock A} = 0.14 / 0.16 = 0.875$$

$$\text{CV stock B} = 0.30 / 0.20 = 1.5$$

Stock A has less dispersion relative to the mean than Stock B.

LOS 7.k: Describe the relative locations of the mean, median, and mode for a unimodal, nonsymmetrical distribution.

27. Answer: B

This statement is true for the normal distribution. The above distribution is positively skewed. Note: for those tempted to use Chebyshev's inequality to determine the percentage of observations falling within one standard deviation of the mean, the formula is valid only for $k > 1$.

The other statements are true. When we order the six prices from least to greatest: \$12, \$12, \$15, \$16, \$17, \$30, we observe that the mode (most frequently occurring price) is \$12, the median (middle observation) is \$15.50 $[(15 + 16)/2]$, and the mean is \$17 (sum of all prices divided by number in the sample). Time-Saving Note: Just by ordering the distribution, we can see that it is positively skewed (there are large, positive outliers). By definition, $\text{mode} < \text{median} < \text{mean}$ describes a positively skewed distribution.

28. Answer: A

In a right-skewed distribution, there are large positive outliers. These outliers increase the mean of the distribution but have little effect on the median. Therefore, the mean is greater than the median.

29. Answer: C

The graph represents a negatively skewed distribution, and thus Point A represents the mean. By definition, $\text{mean} < \text{median} < \text{mode}$ describes a negatively skewed distribution.

30. Answer: A

With the low outlier included, the distribution will be negatively skewed. For a negatively skewed distribution, the mean is less than the median, which is less than the mode.

31. Answer: C

A distribution with positive skewness has long right tails.

LOS 7.I: Explain measures of sample skewness and kurtosis.

32.Answer: B

A leptokurtic distribution is more peaked than normal and has fatter tails. However, the excess kurtosis is greater than zero.

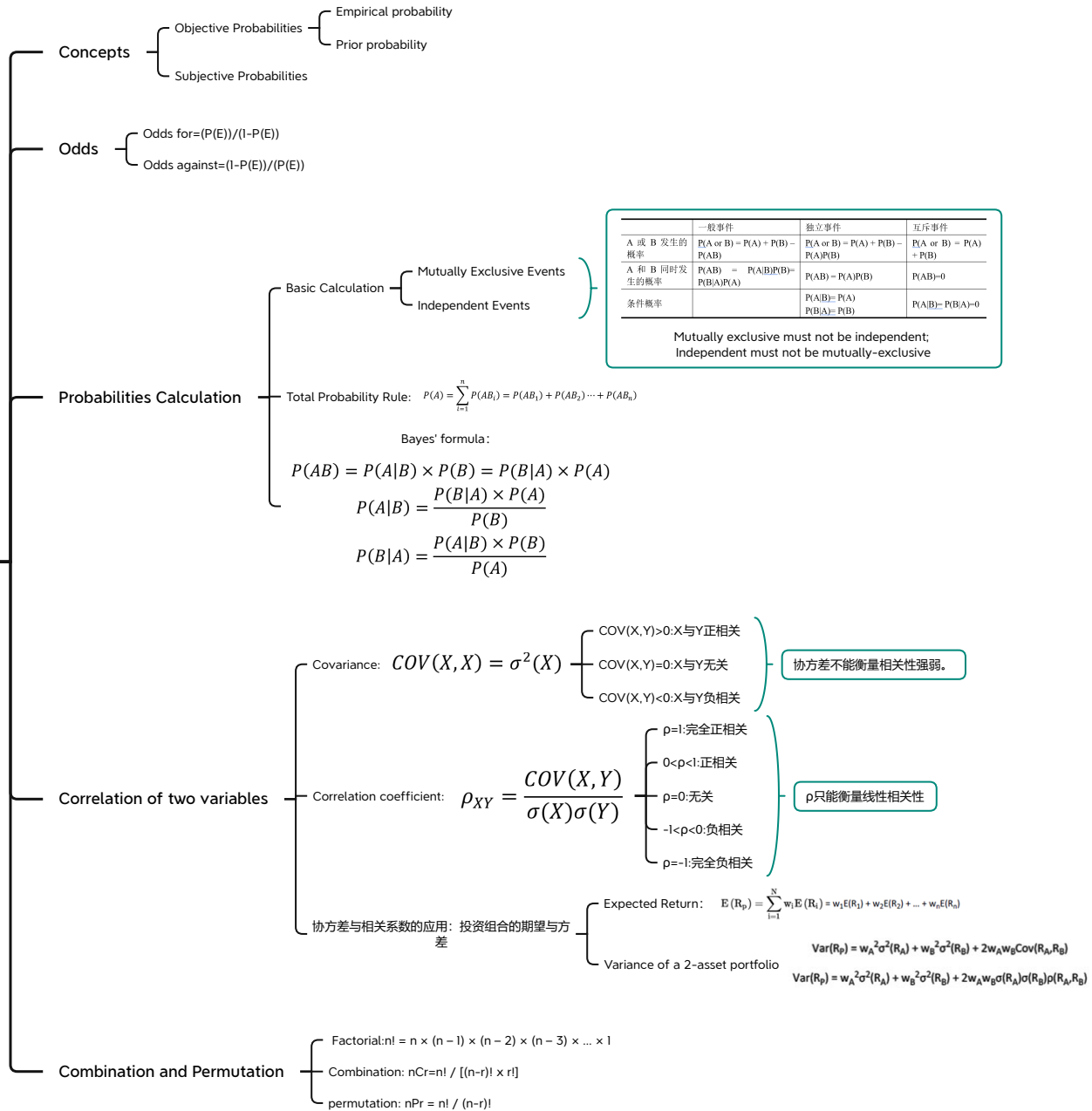
33.Answer: C

A distribution that is more peaked than normal is leptokurtic. A distribution that is fatter than normal is platykurtic.

34.Answer: A

A distribution with positive excess kurtosis has a higher percentage of small deviations from the mean than normal. So it is more "peaked" than a normal distribution. A distribution with positive skew has a mean $>$ mode.

R8 PROBABILITY CONCEPTS



| | 一般事件 | 独立事件 | 互斥事件 |
|---------------|--|---|--|
| A 或 B 发生的概率 | $P(A \text{ or } B) = P(A) + P(B) - P(AB)$ | $P(A \text{ or } B) = P(A) + P(B) - P(A)P(B)$ | $P(A \text{ or } B) = P(A) + P(B)$ |
| A 和 B 同时发生的概率 | $P(AB) = P(A B)P(B) = P(B A)P(A)$ | $P(AB) = P(A)P(B)$ | $P(AB) = 0$ |
| 条件概率 | | $P(A B) = P(A)$ $P(B A) = P(B)$ | $P(A B) = P(A) - 0$ $P(B A) = P(B) - 0$ |

Mutually exclusive must not be independent;
Independent must not be mutually-exclusive



R8 PROBABILITY CONCEPTS

LOS 8.b: State the two defining properties of probability and distinguish among empirical, subjective, and a priori probabilities.

35. Which of the following is an empirical probability?
- A. For a stock, based on prior patterns of up and down days, the probability of the stock having a down day tomorrow.
 - B. The probability the Fed will lower interest rates prior to the end of the year.
 - C. On a random draw, the probability of choosing a stock of a particular industry from the S&P 500 based on the number of firms.

LOS 8.c: State the probability of an event in terms of odds for and against the event.

36. If the odds against an event occurring are twelve to one, what is the probability that it will occur?
- A. 0.0833.
 - B. 0.9231.
 - C. 0.0769.
37. If the probability of an event is 0.10, what are the odds for the event occurring?
- A. Nine to one.
 - B. One to ten.
 - C. One to nine.

LOS 8.d: Distinguish between unconditional and conditional probabilities.

38. Let A and B be two mutually exclusive events with $P(A) = 0.40$ and $P(B) = 0.20$. Therefore:
- A. $P(A \text{ and } B) = 0$.
 - B. $P(A \text{ and } B) = 0.08$.
 - C. $P(B|A) = 0.20$.

LOS 8.f: Calculate and interpret 1) the joint probability of two events, 2) the probability that at least one of two events will occur, given the probability of each and the joint

probability of the two events, and 3) a joint probability of any number of independent events.

39. The following table summarizes the availability of trucks with air bags and bucket seats at a dealership.

| | Bucket Seats | No Bucket Seats | Total |
|-------------|--------------|-----------------|-------|
| Air Bags | 75 | 50 | 125 |
| No Air Bags | 35 | 60 | 95 |
| Total | 110 | 110 | 220 |

What is the probability of randomly selecting a truck with air bags and bucket seats?

A. 0.34.

B. 0.16.

C. 0.28.

40. A parking lot has 100 red and blue cars in it.

40% of the cars are red.

70% of the red cars have radios. 80% of the blue cars have radios.

What is the probability of selecting a car at random that is either red or has a radio?

A. 88%.

B. 28%.

C. 76%.

41. The probability of a new voice building being built in town is 64%. The probability of a new voice building that includes a coffee shop being built in town is 58%. If a new voice building is built in town, the probability that it includes a coffee shop is closest to:

A. 37%.

B. 91%.

C. 58%.

42. There is a 50% chance that the Fed will cut interest rates tomorrow. On any given day, there is a 67% chance the DJIA will increase. On days the Fed cuts interest rates, the

probability the DJIA will go up is 90%. What is the probability that tomorrow the Fed will cut interest rates or the DJIA will go up?

- A. 0.95.
- B. 0.33.
- C. 0.72.

43. There is a 30% probability of rain this afternoon. There is a 10% probability of having an umbrella if it rains. What is the chance of it raining and having an umbrella?

- A. 3%.
- B. 33%.
- C. 40%.

44. If X and Y are independent events, which of the following is most accurate?

- A. $P(X | Y) = P(X)$.
- B. $P(X \text{ or } Y) = P(X) + P(Y)$.
- C. $P(X \text{ or } Y) = (P(X)) \times (P(Y))$.

LOS 8.h: Calculate and interpret an unconditional probability using the total probability rule.

45. The events Y and Z are mutually exclusive and exhaustive: $P(Y) = 0.4$ and $P(Z) = 0.6$. If the probability of X given Y is 0.9, and the probability of X given Z is 0.1, what is the unconditional probability of X?

- A. 0.40.
- B. 0.33.
- C. 0.42.

LOS 8.j: Explain the use of a tree diagram to represent an investment problem.

46. There is a 90% chance that the economy will be good next year and a 10% chance that it will be bad. If the economy is good, there is a 60% chance that XYZ Incorporated will have EPS of \$4.00 and a 40% chance that their earnings will be \$3.00. If the economy is bad, there is an 80% chance that XYZ Incorporated will have EPS of \$2.00 and a 20% chance that their earnings will be \$1.00. What is the firm's expected EPS?

- A. \$3.42.
- B. \$2.50.
- C. \$5.40.

47. Tina O'Fahey, CFA, believes a stock's price in the next quarter depends on two factors: the direction of the overall market and whether the company's next earnings report is good or poor. The possible outcomes and some probabilities are illustrated in the tree diagram shown below:



Based on this tree diagram, the expected value of the stock if the market decreases is closest to:

- A. \$57.00.
- B. \$62.50.
- C. \$26.00.

LOS 8.k: Calculate and interpret covariance and correlation and interpret a scatterplot.

48. Given $\text{Cov}(X,Y) = 1,000,000$. What does this indicate about the relationship between X and Y?

- A. It is strong and positive.
- B. It is weak and positive.
- C. Only that it is positive.

49. The covariance of returns on two investments over a 10-year period is 0.009. If the variance of returns for investment A is 0.020 and the variance of returns for investment B is 0.033, what is the correlation coefficient for the returns?

- A. 0.687.
- B. 0.350.

C. 0.444.

50. The returns on assets C and D are strongly correlated with a correlation coefficient of 0.80. The variance of returns on C is 0.0009, and the variance of returns on D is 0.0036. What is the covariance of returns on C and D?

- A. 0.03020.
- B. 0.40110.
- C. 0.00144.

51. Which of the following statements is least accurate regarding covariance?

- A. The covariance of a variable with itself is one.
- B. Covariance can exceed one.
- C. Covariance can only apply to two variables at a time.

LOS 8.k: Calculate and interpret covariance and correlation and interpret a scatterplot.

52. Given $P(X = 20, Y = 0) = 0.4$, and $P(X = 30, Y = 50) = 0.6$, then $COV(XY)$ is:

- A. 125.00.
- B. 120.00.
- C. 25.00.

LOS 8.l: Calculate and interpret the expected value, variance, and standard deviation of a random variable and of returns on a portfolio.

53. Given the following probability distribution, find the standard deviation of expected returns.

| Event | $P(R_A)$ | R_A |
|---------------|----------|-------|
| Recession | 0.10 | -5% |
| Below Average | 0.30 | -2% |
| Normal | 0.50 | 10% |
| Boom | 0.10 | 31% |

- A. 10.04%.
- B. 12.45%.
- C. 7.00%.

54. Compute the standard deviation of a two-stock portfolio if stock A (40% weight) has a variance of 0.0015, stock B (60% weight) has a variance of 0.0021, and the correlation coefficient for the two stocks is -0.35 ?
- A. 2.64%.
 - B. 1.39%.
 - C. 0.07%.

LOS 8.n: Calculate and interpret an updated probability using Bayes' formula


55. The probability of A is 0.4. The probability of \bar{A} is 0.6. The probability of $(B | A)$ is 0.5, and the probability of $(B | \bar{A})$ is 0.2. Using Bayes' formula, what is the probability of $(A | B)$?
- A. 0.625.
 - B. 0.375.
 - C. 0.125.
56. John purchased 60% of the stocks in a portfolio, while Andrew purchased the other 40%. Half of John's stock-picks are considered good, while a fourth of Andrew's are considered to be good. If a randomly chosen stock is a good one, what is the probability John selected it?
- A. 0.40.
 - B. 0.30.
 - C. 0.75.


LOS 8.o: Identify the most appropriate method to solve a particular counting problem and solve counting problems using factorial, combination, and permutation concepts.


57. A supervisor is evaluating ten subordinates for their annual performance reviews. According to a new corporate policy, for every ten employees, two must be evaluated as "exceeds expectations," seven as "meets expectations," and one as "does not meet expectations." How many different ways is it possible for the supervisor to assign these ratings?
- A. 360.



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B. 10,080.

C. 5,040.



R8 PROBABILITY CONCEPTS

甄选题答案

R8 PROBABILITY CONCEPTS

LOS 8.b: State the two defining properties of probability and distinguish among empirical, subjective, and a priori probabilities.

35.Answer: A

There are three types of probabilities: a priori, empirical, and subjective. An empirical probability is calculated by analyzing past data.

LOS 8.c: State the probability of an event in terms of odds for and against the event.

36.Answer: C

If the probability against the event occurring is twelve to one, this means that in thirteen occurrences of the event, it is expected that it will occur once and not occur twelve times. The probability that the event will occur is then: $1/13 = 0.0769$.

37.Answer: C

The answer can be determined by dividing the probability of the event by the probability that it will not occur: $(1/10) / (9/10) = 1$ to 9. The probability of the event occurring is one to nine, i.e. in ten occurrences of the event, it is expected that it will occur once and not occur nine times.

LOS 8.d: Distinguish between unconditional and conditional probabilities.

38.Answer: A

If the two events are mutually exclusive, the probability of both occurring is zero.

LOS 8.f: Calculate and interpret 1) the joint probability of two events, 2) the probability that at least one of two events will occur, given the probability of each and the joint probability of the two events, and 3) a joint probability of any number of independent events.

39. Answer: A

$$75 \div 220 = 0.34.$$

40. Answer: A

The addition rule for probabilities is used to determine the probability of at least one event among two or more events occurring, in this case a car being red or having a radio. To use the addition rule, the probabilities of each individual event are added together, and, if the events are not mutually exclusive, the joint probability of both events occurring at the same time is subtracted out: $P(\text{red or radio}) = P(\text{red}) + P(\text{radio}) - P(\text{red and radio}) = 0.40 + 0.76 - 0.28 = 0.88$ or 88%.

41. Answer: B

$P(A|B) = P(AB) / P(B)$. The probability of a new coffee shop given a new voice building is $58\% / 64\% = 90.63\%$.

42. Answer: C

This requires the addition formula. From the information: $P(\text{cut interest rates}) = 0.50$ and $P(\text{DJIA increase}) = 0.67$, $P(\text{DJIA increase} | \text{cut interest rates}) = 0.90$. The joint probability is $0.50 \times 0.90 = 0.45$. Thus $P(\text{cut interest rates or DJIA increase}) = 0.50 + 0.67 - 0.45 = 0.72$.

43. Answer: A

$$P(A) = 0.30. P(B | A) = 0.10. P(AB) = (0.30)(0.10) = 0.03 \text{ or } 3\%.$$

44. Answer: A

Note that events being independent means that they have no influence on each other. It does not necessarily mean that they are mutually exclusive. Accordingly, $P(X \text{ or } Y) = P(X) + P(Y) - P(X \text{ and } Y)$. By the definition of independent events, $P(X|Y) = P(X)$.

LOS 8.h: Calculate and interpret an unconditional probability using the total probability rule.

45. Answer: C

Because the events are mutually exclusive and exhaustive, the unconditional probability is obtained by taking the sum of the two joint probabilities: $P(X) = P(X | Y) \times P(Y) + P(X | Z) \times P(Z) = 0.4 \times 0.9 + 0.6 \times 0.1 = 0.42$.

LOS 8.j: Explain the use of a tree diagram to represent an investment problem.**46. Answer: A**

The expected EPS is calculated by multiplying the probability of the economic environment by the probability of the particular EPS and the EPS in each case. The expected EPS in all four outcomes are then summed to arrive at the expected EPS:

$$(0.90 \times 0.60 \times \$4.00) + (0.90 \times 0.40 \times \$3.00) + (0.10 \times 0.80 \times \$2.00) + (0.10 \times 0.20 \times \$1.00) = \$2.16 + \$1.08 + \$0.16 + \$0.02 = \$3.42.$$

47. Answer: A

The expected value if the overall market decreases is $0.4(\$60) + (1 - 0.4)(\$55) = \$57$.

LOS 8.k: Calculate and interpret covariance and correlation and interpret a scatterplot.**48. Answer: C**

A positive covariance indicates a positive linear relationship but nothing else. The magnitude of the covariance by itself is not informative with respect to the strength of the relationship.

49. Answer: B

The correlation coefficient is:

$$\text{Cov}(A,B) / [(\text{Std Dev } A)(\text{Std Dev } B)] = 0.009 / [(0.02)(0.033)] = 0.350.$$

50. Answer: C

$$r = \text{Cov}(C,D) / (\sigma_C \times \sigma_D) \quad \sigma_C = (0.0009)^{0.5} = 0.03$$

$$\sigma_D = (0.0036)^{0.5} = 0.06$$

$$0.8(0.03)(0.06) = 0.00144$$

51. Answer: A

The covariance of a variable with itself is its variance. Both remaining statements are true. Covariance represents the linear relationship between two variables and is not limited in value (i.e., it can range from negative infinity to positive infinity).

LOS 8.k: Calculate and interpret covariance and correlation and interpret a scatterplot.

52. Answer: B

The expected values are:

$$E(X) = (0.4 \times 20) + (0.6 \times 30) = 26, \text{ and } E(Y) = (0.4 \times 0) + (0.6 \times 50) = 30.$$

The covariance is

$$\text{COV}(XY) = (0.4 \times ((20 - 26) \times (0 - 30))) + ((0.6 \times (30 - 26) \times (50 - 30))) = 120.$$

LOS 8.l: Calculate and interpret the expected value, variance, and standard deviation of a random variable and of returns on a portfolio.

53. Answer: A

Find the weighted average return $(0.10)(-5) + (0.30)(-2) + (0.50)(10) + (0.10)(31) = 7\%$.

Next, take differences, square them, multiply by the probability of the event and add them up. That is the variance. Take the square root of the variance for Std. Dev. $(0.1)(-5 - 7)^2 + (0.3)(-2 - 7)^2 + (0.5)(10 - 7)^2 + (0.1)(31 - 7)^2 = 100.8 = \text{variance}.$

$$100.80.5 = 10.04\%.$$

54. Answer: A

The standard deviation of the portfolio is found by:

$$\begin{aligned} & [W_1^2\sigma_1^2 + W_2^2\sigma_2^2 + 2W_1W_2\sigma_1\sigma_2\rho_{1,2}]^{0.5} \\ & = [(0.40)^2(0.0015) + (0.60)^2(0.0021) + (2)(0.40)(0.60)(0.0387)(0.0458)(-0.35)]^{0.5} \\ & = 0.0264, \text{ or } 2.64\%. \end{aligned}$$

LOS 8.n: Calculate and interpret an updated probability using Bayes' formula**55. Answer: A**

Using the total probability rule, we can compute the $P(B)$: $P(B) = [P(B | A) \times P(A)] + [P(B | \bar{A}) \times P(\bar{A})]$ $P(B) = [0.5 \times 0.4] + [0.2 \times 0.6] = 0.32$

Using Bayes' formula, we can solve for

$$P(A | B): P(A | B) = [P(B | A) \div P(B)] \times P(A) = [0.5 \div 0.32] \times 0.4 = 0.625$$

56. Answer: C

Using the information of the stock being good, the probability is updated to a conditional probability: $P(\text{John} | \text{good}) = P(\text{good and John}) / P(\text{good})$.

$$P(\text{good and John}) = P(\text{good} | \text{John}) \times P(\text{John}) = 0.5 \times 0.6 = 0.3. P(\text{good and Andrew}) = 0.25 \times 0.40 = 0.10.$$

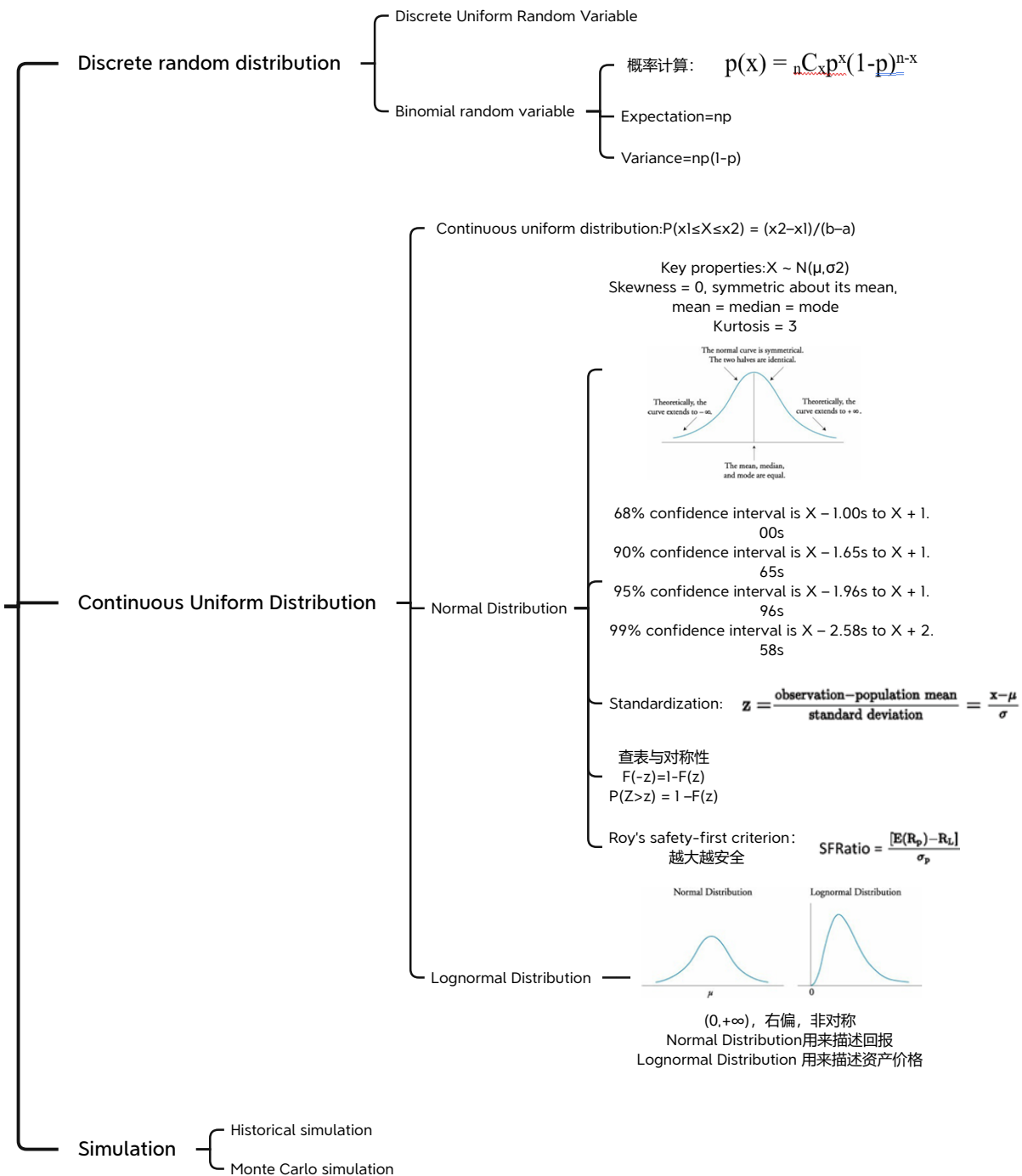
$$P(\text{good}) = P(\text{good and John}) + P(\text{good and Andrew}) = 0.40. P(\text{John} | \text{good}) = P(\text{good and John}) / P(\text{good}) = 0.3 / 0.4 = 0.75.$$

LOS 8.o: Identify the most appropriate method to solve a particular counting problem and solve counting problems using factorial, combination, and permutation concepts.**57. Answer: A**

The number of different ways to assign these labels is:

$$\frac{10!}{2! \times 7! \times 1!} = \frac{3,628,800}{2 \times 5,040 \times 1} = 360$$

R9 COMMON PROBABILITY DISTRIBUTIONS



R9 COMMON PROBABILITY DISTRIBUTIONS

LOS 9.a: Define a probability distribution and distinguish between discrete and continuous random variables and their probability functions.

58. Which of the following statements about probability distributions is least accurate?

- A. A discrete random variable is a variable that can assume only certain clearly separated values resulting from a count of some set of items.
- B. A binomial probability distribution is an example of a continuous probability distribution.
- C. The skewness of a normal distribution is zero.

LOS 9.e: Define a discrete uniform random variable, a Bernoulli random variable, and a binomial random variable.

59. There is an 80% chance of rain on each of the next six days. What is the probability that it will rain on exactly two of those days?

- A. 0.01536.
- B. 0.24327.
- C. 0.15364.

60. For a certain class of junk bonds, the probability of default in a given year is 0.2.

Whether one bond defaults is independent of whether another bond defaults. For a portfolio of five of these junk bonds, what is the probability that zero or one bond of the five defaults in the year ahead?

- A. 0.7373.
- B. 0.4096.
- C. 0.0819.

61. A stock priced at \$10 has a 60% probability of moving up and a 40% probability of moving down. If it moves up, it increases by a factor of 1.06. If it moves down, it decreases by a factor of $1/1.06$. What is the expected stock price after two successive periods?

- A. \$11.24.
- B. \$10.27.
- C. \$10.03.

LOS 9.h: Define the continuous uniform distribution and calculate and interpret probabilities, given a continuous uniform distribution.

62. A random variable follows a continuous uniform distribution over 27 to 89. What is the probability of an outcome between 34 and 38?
- A. 0.0546.
 - B. 0.0719.
 - C. 0.0645.

LOS 9.i: Define the standard normal distribution, explain how to standardize a random variable, and calculate and interpret probabilities using the standard normal distribution.

63. A group of investors wants to be sure to always earn at least a 5% rate of return on their investments. They are looking at an investment that has a normally distributed probability distribution with an expected rate of return of 10% and a standard deviation of 5%. The probability of meeting or exceeding the investors' desired return in any given year is closest to:
- A. 98%.
 - B. 84%.
 - C. 34%.
64. A stock portfolio's returns are normally distributed. It has had a mean annual return of 25% with a standard deviation of 40%. The probability of a return between -41% and 91% is closest to:
- A. 65%.
 - B. 90%.
 - C. 95%.
65. If a stock's return is normally distributed with a mean of 16% and a standard deviation of 50%, what is the probability of a negative return in a given year?

- A. 0.3745.
- B. 0.5000.
- C. 0.0001.

66. The owner of a bowling alley determined that the average weight for a bowling ball is 12 pounds with a standard deviation of 1.5 pounds. A ball denoted "heavy" should be one of the top 2% based on weight. Assuming the weights of bowling balls are normally distributed, at what weight (in pounds) should the "heavy" designation be used?

| Cumulative Z-Table | | |
|--------------------|--------|--------|
| z | 0.04 | 0.05 |
| 1.8 | 0.9671 | 0.9678 |
| 1.9 | 0.9738 | 0.9744 |
| 2.0 | 0.9793 | 0.9798 |
| 2.1 | 0.9838 | 0.9842 |

- A. 15.08 pounds.
- B. 14.22 pounds.
- C. 14.00 pounds.

67. A grant writer for a local school district is trying to justify an application for funding an after-school program for low-income families. Census information for the school district shows an average household income of \$26,200 with a standard deviation of \$8,960. Assuming that the household income is normally distributed, what is the percentage of households in the school district with incomes of less than \$12,000?

- A. 15.87%.
- B. 5.71%.
- C. 9.92%.

68. Monthly sales of hot water heaters are approximately normally distributed with a mean of 21 and a standard deviation of 5. What is the probability of selling 12 hot water heaters or less next month?

| Cumulative z-table | | | | |
|--------------------|------|------|------|------|
| z | 0.00 | 0.01 | 0.02 | 0.03 |
| | | | | |

| | | | | |
|-----|--------|--------|--------|--------|
| 1.6 | 0.9452 | 0.9463 | 0.9474 | 0.9484 |
| 1.7 | 0.9554 | 0.9564 | 0.9573 | 0.9582 |
| 1.8 | 0.9641 | 0.9649 | 0.9656 | 0.9664 |

- A. 96.41%.
- B. 3.59%.
- C. 1.80%.

LOS 9.m: Define shortfall risk, calculate the safety-first ratio, and select an optimal portfolio using Roy's safety-first criterion.

69. The mean and standard deviation of returns for three portfolios are listed below in percentage terms. Portfolio X: Mean 5%, standard deviation 3%. Portfolio Y: Mean 14%, standard deviation 20%. Portfolio Z: Mean 19%, standard deviation 28%. Using Roy's safety-first criteria and a threshold of 4%, select the optimal portfolio.

- A. Portfolio Z.
- B. Portfolio Y.
- C. Portfolio X.

70. The mean and standard deviation of returns on three portfolios are listed below in percentage terms: Portfolio X: Mean 5%, standard deviation 3%. Portfolio Y: Mean 14%, standard deviation 20%. Portfolio Z: Mean 19%, standard deviation 28%. Using Roy's safety first criteria and a threshold of 3%, which of these is the optimal portfolio?

- A. Portfolio X.
- B. Portfolio Y.
- C. Portfolio Z.

LOS 9.n: Explain the relationship between normal and lognormal distributions and why the lognormal distribution is used to model asset prices.

71. Which of the following statements regarding the distribution of returns used for asset pricing models is most accurate?

- A. Normal distribution returns are used for asset pricing models because they will only allow the asset price to fall to zero.
- B. Lognormal distribution returns are used for asset pricing models because they will not result in an asset return of less than -100%.
- C. Lognormal distribution returns are used because this will allow for negative returns on the assets.

LOS 9.o: Distinguish between discretely and continuously compounded rates of return and calculate and interpret a continuously compounded rate of return, given a specific holding period return.

72. Over a period of one year, an investor's portfolio has declined in value from 127,350 to 108,427. What is the continuously compounded rate of return?

- A. -16.09%.
- B. -13.84%.
- C. -14.86%.

73. A stated interest rate of 9% compounded continuously results in an effective annual rate closest to:

- A. 9.20%.
- B. 9.42%.
- C. 9.67%.

74. The continuously compounded rate of return that will generate a one-year holding period return of -6.5% is closest to:

- A. -6.7%.
- B. -6.3%.
- C. -5.7%.

LOS 9.p: Explain Monte Carlo simulation and describe its applications and limitations.

75. Which of the following statements describes a limitation of Monte Carlo simulation?

- A. Variables are assumed to be normally distributed but may actually have non-normal distributions.

- B. Outcomes of a simulation can only be as accurate as the inputs to the model.
- C. Simulations do not consider possible input values that lie outside historical experien

LOS 9.q: Compare Monte Carlo simulation and historical simulation.

76. A drawback of historical simulation is it:

- A. may not account for very rare events.
- B. assumes that the outcomes of events are normally distributed.
- C. depends on the accuracy of the random number generator.

77. Joan Biggs, CFA, acquires a large database of past returns on a variety of assets. Biggs then draws random samples of sets of returns from the database and analyzes the resulting distributions. Biggs is engaging in:

- A. historical simulation.
- B. discrete analysis.
- C. Monte Carlo simulation.



R9 COMMON PROBABILITY DISTRIBUTIONS
甄选题答案

R9 COMMON PROBABILITY DISTRIBUTIONS

LOS 9.a: Define a probability distribution and distinguish between discrete and continuous random variables and their probability functions.

58.Answer: B

The binomial probability distribution is an example of a discrete probability distribution. There are only two possible outcomes of each trial and the outcomes are mutually exclusive. For example, in a coin toss the outcome is either heads or tails.

The other responses are both correct definitions.

LOS 9.e: Define a discrete uniform random variable, a Bernoulli random variable, and a binomial random variable.

59.Answer: A

$$P(2) = 6! / [(6 - 2)! \times 2!] \times (0.8^2) \times (0.2^4) = 0.01536 = 6 \text{ nCr } 2 \times (0.8)^2 \times (0.2)^4$$

60.Answer: A

The outcome follows a binomial distribution where $n = 5$ and $p = 0.2$. In this case $p(0) = 0.8^5 = 0.3277$ and $p(1) = 5 \times 0.8^4 \times 0.2 = 0.4096$, so $P(X=0 \text{ or } X=1) = 0.3277 + 0.4096$

61.Answer: B

If the stock moves up twice, it will be worth $\$10 \times 1.06 \times 1.06 = \11.24 . The probability of this occurring is $0.60 \times 0.60 = 0.36$. If the stock moves down twice, it will be worth $\$10 \times (1/1.06) \times (1/1.06) = \8.90 . The probability of this occurring is $0.40 \times 0.40 = 0.16$. If the stock moves up once and down once, it will be worth $\$10 \times 1.06 \times (1/1.06) = \10.00 . This can occur if either the stock goes up then down or down then up. The probability of this occurring is $0.60 \times 0.40 + 0.40 \times 0.60 = 0.48$. Multiplying the potential stock prices by the

probability of them occurring provides the expected stock price: $(\$11.24 \times 0.36) + (\$8.90 \times 0.16) + (\$10.00 \times 0.48) = \10.27 .

LOS 9.h: Define the continuous uniform distribution and calculate and interpret probabilities, given a continuous uniform distribution.

62.Answer: C

$$P(34 \leq X \leq 38) = (38 - 34) / (89 - 27) = 0.0645$$

LOS 9.i: Define the standard normal distribution, explain how to standardize a random variable, and calculate and interpret probabilities using the standard normal distribution.

63.Answer: B

The mean is 10% and the standard deviation is 5%. You want to know the probability of a return 5% or better. $10\% - 5\% = 5\%$, so 5% is one standard deviation less than the mean. Thirty-four percent of the observations are between the mean and one standard deviation on the down side. Fifty percent of the observations are greater than the mean. So the probability of a return 5% or higher is $34\% + 50\% = 84\%$.

64.Answer: B

A 90% confidence level includes the range between plus and minus 1.65 standard deviations from the mean.

$$(91 - 25) / 40 = 1.65 \text{ and } (-41 - 25) / 40 = -1.65.$$

65.Answer: A

The selected random value is standardized (its z-value is calculated) by subtracting the mean from the selected value and dividing by the standard deviation. This results in a z-value of $(0 - 16) / 50 = -0.32$. Changing the sign and looking up +0.32 in the z-value table yields 0.6255 as the probability that a random variable is to the right of the standardized value (i.e. more than zero). Accordingly, the probability of a random variable being to the left of the standardized value (i.e. less than zero) is $1 - 0.6255 = 0.3745$.

66. Answer: A

The first step is to determine the z-score that corresponds to the top 2%. Since we are only concerned with the top 2%, we only consider the right hand of the normal distribution. Looking on the cumulative table for 0.9800 (or close to it) we find a z-score of 2.05. To answer the question, we need to use the normal distribution given: 98 percentile = sample mean + (z-score)(standard deviation) = $12 + 2.05(1.5) = 15.08$.

67. Answer: B

$$Z = (\$12,000 - \$26,200) / \$8,960 = -1.58.$$

From the table of areas under the standard normal curve, 5.71% of observations are more than 1.58 standard deviations below the mean.

68. Answer: B

$$Z = (12 - 21) / 5 = -1.8$$

From the cumulative z-table, the probability of being more than 1.8 standard deviations below the mean, probability $x < -1.8$, is 3.59%.

LOS 9.m: Define shortfall risk, calculate the safety-first ratio, and select an optimal portfolio using Roy's safety-first criterion.

69. Answer: A

Portfolio Z has the largest value for the SFRatio: $(19 - 4) / 28 = 0.5357$. For Portfolio X, the SFRatio is $(5 - 4) / 3 = 0.3333$.

For Portfolio Y, the SFRatio is $(14 - 4) / 20 = 0.5000$.

70. Answer: A

According to the safety-first criterion, the optimal portfolio is the one that has the largest value for the SFRatio (mean - threshold) / standard deviation.

For Portfolio X, $(5 - 3) / 3 = 0.67$.

For Portfolio Y, $(14 - 3) / 20 = 0.55$.

For Portfolio Z, $(19 - 3) / 28 = 0.57$.

LOS 9.n: Explain the relationship between normal and lognormal distributions and why the lognormal distribution is used to model asset prices.

71.Answer: B

Lognormal distribution returns are used for asset pricing models because this will not result in asset returns of less than 100% because the lowest the asset price can decrease to is zero which is the lowest value on the lognormal distribution. The normal distribution allows for asset prices less than zero which could result in a return of less than -100% which is impossible.

LOS 9.o: Distinguish between discretely and continuously compounded rates of return and calculate and interpret a continuously compounded rate of return, given a specific holding period return.

72.Answer: A

The continuously compounded rate of return = $\ln(S_1 / S_0) = \ln(108,427 / 127,350) = -16.09\%$.

73.Answer: B

The effective annual rate with continuous compounding = $e^r - 1 = e^{0.09} - 1 = 0.09417$, or 9.42%.

74.Answer: A

Continuously compounded rate of return = $\ln(1 - 0.065) = -6.72\%$.

LOS 9.p: Explain Monte Carlo simulation and describe its applications and limitations.

75.Answer: B

Monte Carlo simulations can be set up with inputs that have any distribution and any desired range of possible values. However, a limitation of the technique is that its output

can only be as accurate as the assumptions an analyst makes about the range and distribution of the inputs.

LOS 9.q: Compare Monte Carlo simulation and historical simulation.

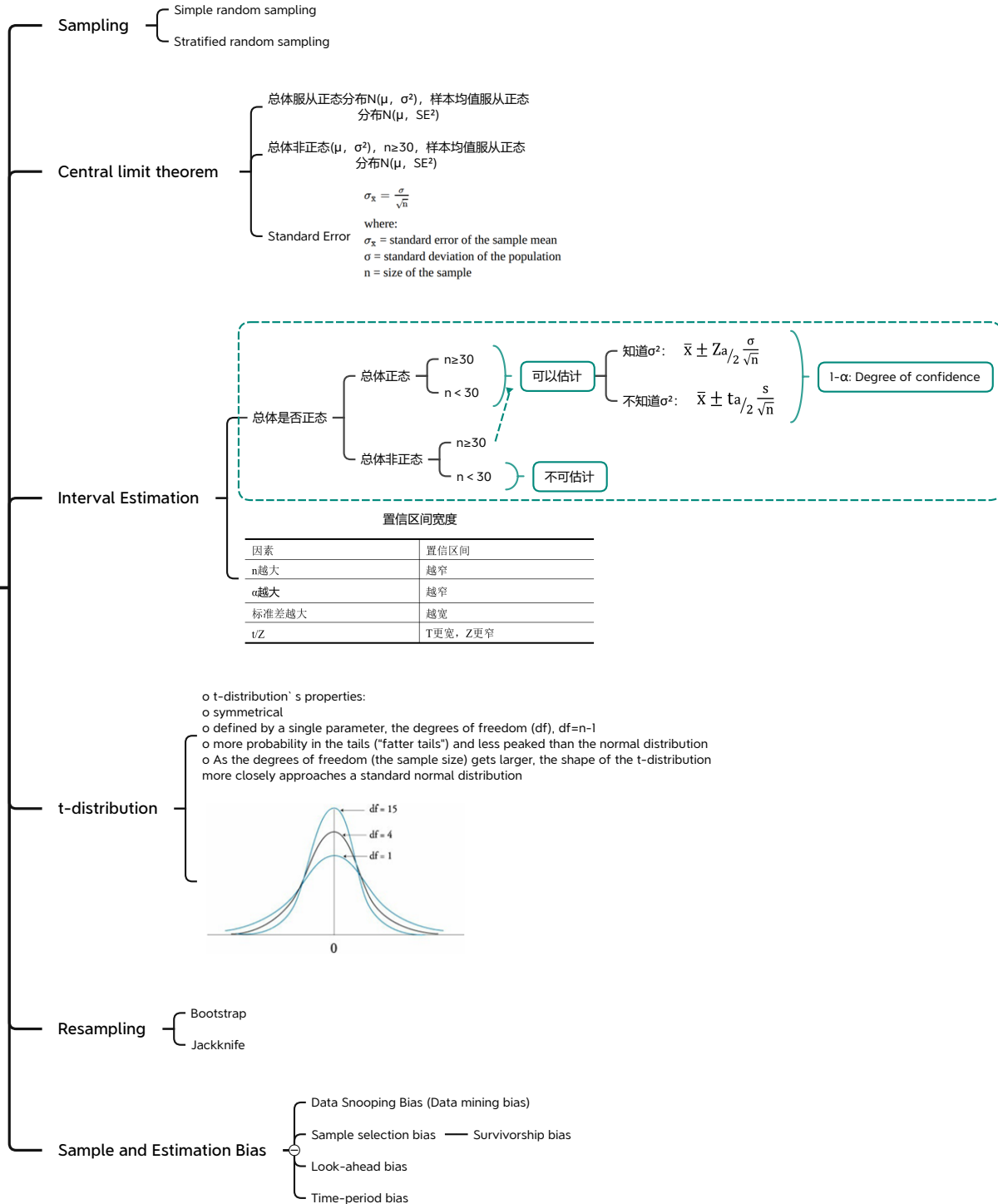
76.Answer: A

There are two major problems with historical simulation. The first is that it cannot account for events that do not occur in the sample. The other drawback is that the analyst cannot change the parameters of the distribution to examine how small changes might affect the asset's behavior.

77.Answer: A

This is a typical example of historical simulation.

R10 SAMPLING AND ESTIMATION



R10 SAMPLING AND ESTIMATION

LOS 10.c: Distinguish between simple random and stratified random sampling.

78. An equity analyst needs to select a representative sample of manufacturing stocks. Starting with the population of all publicly traded manufacturing stocks, she classifies each stock into one of the 20 industry groups that form the Index of Industrial Production for the manufacturing industry. She then selects four stocks from each industry. The sampling method the analyst is using is best characterized as:

- A. random sampling.
- B. non-random sampling.
- C. stratified random sampling.

LOS 10.d: Distinguish between time-series and cross-sectional data.

79. An analyst is asked to calculate standard deviation using monthly returns over the last five years. These data are best described as:

- A. cross-sectional data.
- B. systematic sampling data.
- C. time series data.

LOS 10.e: Explain the central limit theorem and its importance.

80. Which of the following is NOT a prediction of the central limit theorem?

- A. The variance of the sampling distribution of sample means will approach the population variance divided by the sample size.
- B. The standard error of the sample mean will increase as the sample size increases.
- C. The mean of the sampling distribution of the sample means will be equal to the population mean.

LOS 10.f: Calculate and interpret the standard error of the sample mean.

81. From a population of 5,000 observations, a sample of $n = 100$ is selected. Calculate the standard error of the sample mean if the population standard deviation is 50.

- A. 5.00.
- B. 4.48.
- C. 50.00.

82. Melissa Cyprus, CFA, is conducting an analysis of inventory management practices in the retail industry. She assumes the population cross-sectional standard deviation of inventory turnover ratios is 20. How large a random sample should she gather in order to ensure a standard error of the sample mean of 4?

- A. 20.
- B. 80.
- C. 25.

LOS 10.g: Identify and describe desirable properties of an estimator.

83. The sample mean is a consistent estimator of the population mean because the:

- A. sampling distribution of the sample mean has the smallest variance of any other unbiased estimators of the population mean.
- B. sample mean provides a more accurate estimate of the population mean as the sample size increases.
- C. expected value of the sample mean is equal to the population mean.

84. A statistical estimator is unbiased if:

- A. the expected value of the estimator is equal to the population parameter.
- B. the variance of its sampling distribution is smaller than that of all other estimators.
- C. an increase in sample size decreases the standard error.

LOS 10.i: Describe properties of Student's t-distribution and calculate and interpret its degrees of freedom.

85. Segment of the table of critical values for Student's t-distribution:

| Level of Significance for a One-Tailed Test | | |
|---|-------|-------|
| df | 0.050 | 0.025 |
| Level of Significance for a Two-Tailed Test | | |
| df | 0.10 | 0.05 |
| 28 | 1.701 | 2.048 |
| 29 | 1.699 | 2.045 |
| 30 | 1.697 | 2.042 |
| 40 | 1.684 | 2.021 |

For a t-distributed test statistic with 30 degrees of freedom, a one-tailed test specifying the parameter greater than some value and a 95% confidence level, the critical value is:

- A. 1.684.
- B. 1.697.
- C. 2.042.

86. Which one of the following statements about the t-distribution is most accurate?

- A. The t-distribution approaches the standard normal distribution as the number of degrees of freedom becomes large.
- B. Compared to the normal distribution, the t-distribution has less probability in the tails.
- C. The t-distribution is the only appropriate distribution to use when constructing confidence intervals based on large samples.

LOS 10.j: Calculate and interpret a confidence interval for a population mean, given a normal distribution with 1) a known population variance, 2) an unknown population variance, or 3) an unknown population variance and a large sample size.

87. From a sample of 41 orders for an on-line bookseller, the average order size is \$75, and the sample standard deviation is \$18. Assume the distribution of orders is normal. For which interval can one be exactly 90% confident that the population mean is contained in that interval?

- A. \$71.29 to 78.71.
- B. \$70.27 to \$79.73.
- C. \$74.24 to \$75.76.

88. Which of the following statements about a confidence interval for a population mean is most accurate?

- A. For a sample size of 30, using a t-statistic will result in a wider confidence interval for a population mean than using a z-statistic.

- B. If the population variance is unknown, a large sample size is required in order to estimate a confidence interval for the population mean.
- C. When a z-statistic is acceptable, a 95% confidence interval for a population mean is the sample mean plus-or-minus 1.96 times the sample standard deviation.
89. In which one of the following cases is the t-statistic the appropriate one to use in the construction of a confidence interval for the population mean?
- A. The distribution is nonnormal, the population variance is known, and the sample size is at least 30.
- B. The distribution is normal, the population variance is known, and the sample size is less than 30.
- C. The distribution is nonnormal, the population variance is unknown, and the sample size is at least 30.
90. What is the 95% confidence interval for a population mean with a known population variance of 9, based on a sample of 400 observations with mean of 96?
- A. 95.706 to 96.294.
- B. 95.613 to 96.387.
- C. 95.118 to 96.882.
91. Which of the following statements regarding confidence intervals is most accurate?
- A. The lower the significance level, the wider the confidence interval.
- B. The lower the degree of confidence, the wider the confidence interval.
- C. The higher the significance level, the wider the confidence interval.

LOS 10.k: Describe the issues regarding selection of the appropriate sample size, data-mining bias, sample selection bias, survivorship bias, look-ahead bias, and time-period bias.

92. To test the hypothesis that actively managed international equities mutual funds outperformed an appropriate benchmark index, an analyst selects all of the current international equities funds that have been in existence for at least 10 years. His test results will most likely be subject to:
- A. survivorship bias.

- B. time period bias.
 - C. look-ahead bias.
93. When sampling from a nonnormal distribution with a known variance, which statistic should be used if the sample size is large and if the respective sample size is small?
- A. z-statistic; not available.
 - B. z-statistic; z-statistic.
 - C. t-statistic; t-statistic.
94. An analyst has reviewed market data for returns from 1980–1990 extensively, searching for patterns in the returns. She has found that when the end of the month falls on a Saturday, there are usually positive returns on the following Thursday. She has engaged in:
- A. time period bias.
 - B. data mining.
 - C. biased selection.

R10 SAMPLING AND ESTIMATION

甄选题答案

R10 SAMPLING AND ESTIMATION

LOS 10.c: Distinguish between simple random and stratified random sampling.

78.Answer: C

In stratified random sampling, a researcher classifies a population into smaller groups based on one or more characteristics, takes a simple random sample from each subgroup, and pools the results.

LOS 10.d: Distinguish between time-series and cross-sectional data.

79.Answer: C

Time series data are taken at equally spaced intervals, such as monthly, quarterly, or annual. Cross sectional data are taken at a single point in time. An example of cross-sectional data is dividend yields on 500 stocks as of the end of a year.

LOS 10.e: Explain the central limit theorem and its importance.

80.Answer: B

The standard error of the sample mean is equal to the sample standard deviation divided by the square root of the sample size. As the sample size increases, this ratio decreases. The other two choices are predictions of the central limit theorem.

LOS 10.f: Calculate and interpret the standard error of the sample mean.

81.Answer: A

The standard error of the sample mean equals the standard deviation of the population divided by the square root of the sample size: $50 / 100^{1/2} = 5$.

82.Answer: C

Given the population standard deviation and the standard error of the sample mean, you can solve for the sample size. Because the standard error of the sample mean equals the standard deviation of the population divided by the square root of the sample size, $4 = 20 / n^{1/2}$, so $n^{1/2} = 5$, so $n = 25$

LOS 10.g: Identify and describe desirable properties of an estimator.

83.Answer: B

A consistent estimator provides a more accurate estimate of the parameter as the sample size increases.

84.Answer: A

Desirable properties of an estimator are unbiasedness, efficiency, and consistency. An estimator is unbiased if its expected value is equal to the population parameter it is estimating. An estimator is efficient if the variance of its sampling distribution is smaller than that of all other unbiased estimators. An estimator is consistent if an increase in sample size decreases the standard error.

LOS 10.i: Describe properties of Student's t-distribution and calculate and interpret its degrees of freedom.

85.Answer: B

This is the critical value for a one-tailed probability of 5% and 30 degrees of freedom.

86.Answer: A

As the number of degrees of freedom grows, the t-distribution approaches the shape of the standard normal distribution. Compared to the normal distribution, the t-distribution has fatter tails. When choosing a distribution, three factors must be considered: sample size, whether population variance is known, and if the distribution is normal.

LOS 10.j: Calculate and interpret a confidence interval for a population mean, given a normal distribution with 1) a known population variance, 2) an unknown population variance, or 3) an unknown population variance and a large sample size.

87. Answer: B

If the distribution of the population is normal, but we don't know the population variance, we can use the Student's t-distribution to construct a confidence interval. Because there are 41 observations, the degrees of freedom are 40. From Student's t table, we can determine that the reliability factor for $t_{\alpha/2}$, or $t_{0.05}$, is 1.684. Then the 90% confidence interval is $\$75.00 \pm 1.684(\$18.00 / \sqrt{41})$, or $\$75.00 \pm 1.684 \times \2.81 or $\$75.00 \pm \4.73

88. Answer: A

Although the t-distribution begins to approach the shape of a normal distribution for large sample sizes, at a sample size of 30 a t-statistic produces a wider confidence interval than a z-statistic. A confidence interval for the population mean is the sample mean plus-or-minus the appropriate critical value times the standard error, which is the standard deviation divided by the square root of the sample size. If a population is normally distributed, we can use a t-statistic to construct a confidence interval for the population mean from a small sample, even if the population variance is unknown.

89. Answer: C

The t-distribution is the theoretically correct distribution to use when constructing a confidence interval for the mean when the distribution is nonnormal and the population variance is unknown but the sample size is at least 30.

90. Answer: A

Because we can compute the population standard deviation, we use the z-statistic. A 95% confidence level is constructed by taking the population mean and adding and subtracting the product of the z-statistic reliability ($z_{\alpha/2}$) factor times the known standard deviation of the population divided by the square root of the sample size (note that the population

variance is given and its positive square root is the standard deviation of the population): $x \pm z_{\alpha/2} \times (\sigma / n^{1/2}) = 96 \pm 1.96 \times (9^{1/2} / 400^{1/2}) = 96 \pm 1.96 \times (0.15) = 96 \pm 0.294 = 95.706$ to 96.294

91. Answer: A

A higher degree of confidence requires a wider confidence interval. The degree of confidence is equal to one minus the significance level, and so the wider the confidence interval, the higher the degree of confidence and the lower the significance level.

LOS 10.k: Describe the issues regarding selection of the appropriate sample size, data-mining bias, sample selection bias, survivorship bias, look-ahead bias, and time-period bias.

92. Answer: A

When constructing samples, researchers must be careful not to include just survivors (e.g., surviving companies, mutual funds, or investment newsletters). Since survivors tend to be those that have done well (by skill or chance), funds that have 10-year track records will exhibit performance histories with upward bias—mutual fund companies regularly discontinue funds with poor performance histories or roll their assets into better performing funds. Time period bias occurs when the period chosen is so short that it shows relationships that are unlikely to recur, or so long that it includes fundamental changes in the relationship being observed. A 10-year period typically includes a full economic cycle and is likely to be appropriate for this test. Look-ahead bias is present if the test relates a variable to data that were not available at the points in time when that variable's outcomes were observed.

93. Answer: A

| When you are sampling from a: | and the sample size is small, use a: | and the sample size is large, use a: |
|---|--------------------------------------|--------------------------------------|
| Normal distribution with a known variance | z-statistic | z-statistic |

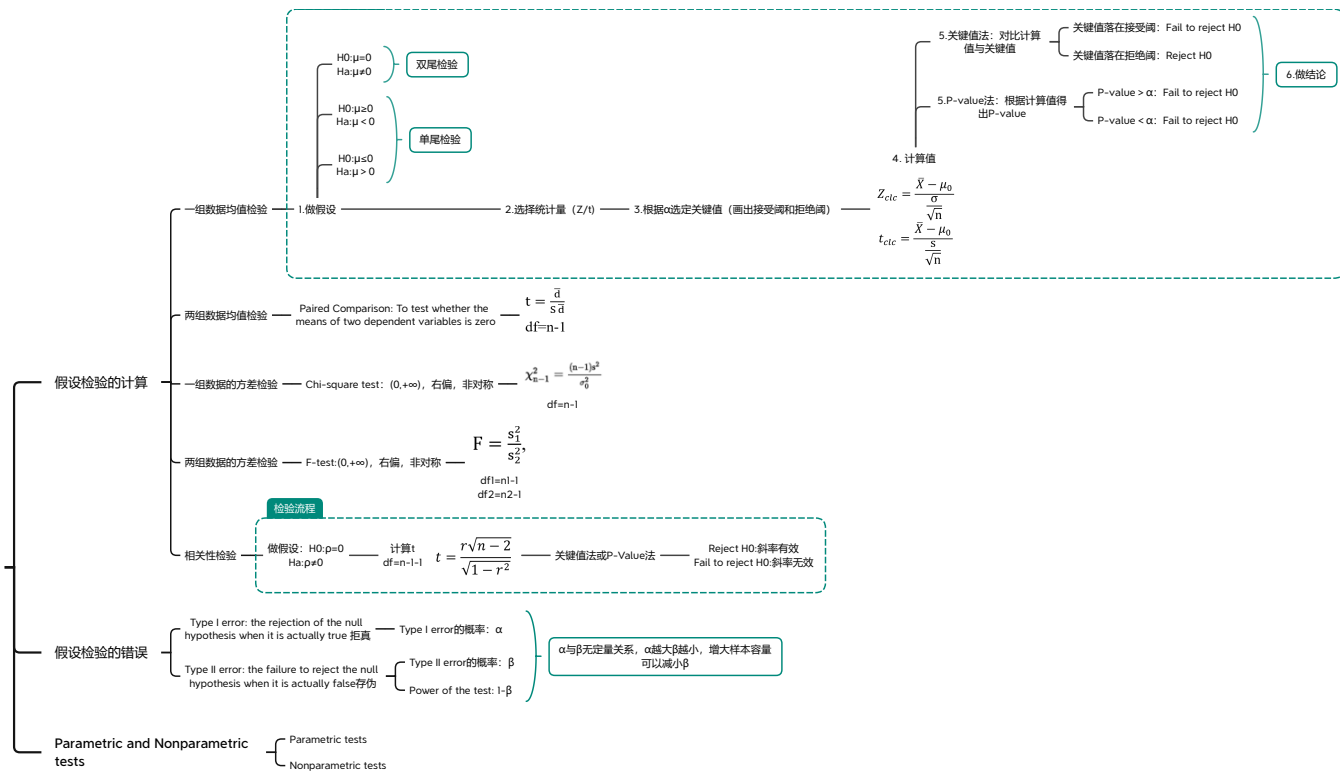
| | | |
|--|---------------|--------------|
| Normal distribution with an unknown variance | t-statistic | t-statistic* |
| Nonmoral distribution with a known variance | not available | z-statistic |
| nonmoral distribution with an unknown variance | not available | t-statistic* |

*The z-statistic is theoretically acceptable here, but use of the t-statistic is more conservative.

94. Answer: B

Data mining refers to the extensive review of the same database searching for patterns.

R11 HYPOTHESIS TESTING



R11 HYPOTHESIS TESTING

LOS 11.b: Distinguish between one-tailed and two-tailed tests of hypotheses.

95. Jill Woodall believes that the average return on equity in the retail industry, μ , is less than 15%. What are the null (H_0) and alternative (H_a) hypotheses for her study?

- A. $H_0: \mu \geq 0.15$ versus $H_a: \mu < 0.15$.
- B. $H_0: \mu \leq 0.15$ versus $H_a: \mu > 0.15$.
- C. $H_0: \mu < 0.15$ versus $H_a: \mu \geq 0.15$.

96. John Jenkins, CFA, is performing a study on the behavior of the mean P/E ratio for a sample of small-cap companies. Which of the following statements is most accurate?

- A. One minus the confidence level of the test represents the probability of making a Type II error.
- B. The significance level of the test represents the probability of making a Type I error.
- C. A Type I error represents the failure to reject the null hypothesis when it is, in truth, false.

LOS 11.d: Explain a decision rule, the power of a test, and the relation between confidence intervals and hypothesis tests.

97. The power of the test is:

- A. the probability of rejecting a false null hypothesis.
- B. the probability of rejecting a true null hypothesis.
- C. equal to the level of confidence.

98. Which of the following statements about hypothesis testing is most accurate?

- A. The power of a test is one minus the probability of a Type I error.
- B. If you can disprove the null hypothesis, then you have proven the alternative hypothesis.
- C. The probability of a Type I error is equal to the significance level of the test.

LOS 11.f: Explain and interpret the p-value as it relates to hypothesis testing.

99. A p-value of 0.02% means that a researcher:

- A. can reject the null hypothesis at both the 5% and 1% significance levels.
- B. can reject the null hypothesis at the 5% significance level but cannot reject at the 1% significance level.
- C. cannot reject the null hypothesis at either the 5% or 1% significance levels.

100. An analyst is testing the hypothesis that the mean excess return from a trading strategy is less than or equal to zero. The analyst reports that this hypothesis test produces a p-value of 0.034. This result most likely suggests that the:

- A. null hypothesis can be rejected at the 5% significance level.
- B. best estimate of the mean excess return produced by the strategy is 3.4%.
- C. smallest significance level at which the null hypothesis can be rejected is 6.8%.

LOS 11.j: Identify the appropriate test statistic and interpret the results for a hypothesis test concerning 1) the variance of a normally distributed population, and 2) the equality of the variances of two normally distributed populations based on two independent random samples

101. A researcher is testing the hypothesis that a population mean is equal to zero. From a sample with 64 observations, the researcher calculates a sample mean of -2.5 and a sample standard deviation of 8.0 . At which levels of significance should the researcher reject the hypothesis?

| | 1% significance | 5% significance | 10% significance |
|----|-----------------|-----------------|------------------|
| A. | Fail to reject | Reject | Reject |
| B. | Fail to reject | Fail to reject | Reject |
| C. | Reject | Fail to reject | Fail to reject |

102. In order to test whether the mean IQ of employees in an organization is greater than 100, a sample of 30 employees is taken and the sample value of the computed test statistic, $t_{n-1} = 3.4$. If you choose a 5% significance level you should:

- A. reject the null hypothesis and conclude that the population mean is greater than 100
- B. fail to reject the null hypothesis and conclude that the population mean is greater than 100.

- C. fail to reject the null hypothesis and conclude that the population mean is less than or equal to 100.
103. A survey is taken to determine whether the average starting salaries of CFA charter holders is equal to or greater than \$62,500 per year. What is the test statistic given a sample of 125 newly acquired CFA charter holders with a mean starting salary of \$65,000 and a standard deviation of \$2,600?
- A. -10.75.
B. 0.96.
C. 10.75.
104. Which of the following statements about test statistics is least accurate?
- A. In the case of a test of the difference in means of two independent samples, we use a t-distributed test statistic.
B. In a test of the population mean, if the population variance is unknown, we should use a t-distributed test statistic.
C. In a test of the population mean, if the population variance is unknown and the sample is small, we should use a z-distributed test statistic.
105. The variance of 100 daily stock returns for Stock A is 0.0078. The variance of 90 daily stock returns for Stock B is 0.0083. Using a 5% level of significance, the critical value for this test is 1.61. The most appropriate conclusion regarding whether the variance of Stock A is different from the variance of Stock B is that the:
- A. variances are not equal.
B. variances are equal.
C. variance of Stock B is significantly greater than the variance of Stock A.
106. The test of the equality of the variances of two normally distributed populations requires the use of a test statistic that is:
- A. Chi-squared distributed.
B. z-distributed.
C. F-distributed.

107. A test of the population variance is equal to a hypothesized value requires the use of a test statistic that is:

- A. Chi-squared distributed.
- B. F-distributed.
- C. t-distributed.

108. In order to test if Stock A is more volatile than Stock B, prices of both stocks are observed to construct the sample variance of the two stocks. The appropriate test statistics to carry out the test is the:

- A. F test.
- B. t test.
- C. Chi-square test.

109. An analyst wants to determine whether the monthly returns on two stocks over the last year were the same or not. What test should she use, assuming returns are normally distributed?

- A. Chi-square test.
- B. Paired comparisons test.
- C. Difference in means test.

LOS 11.k: Formulate a test of the hypothesis that the population correlation coefficient equals zero and determine whether the hypothesis is rejected at a given level of significance.

110. Critical values from Student's t-distribution for a two-tailed test at a 5% significance level:

df

28 2.048

29 2.045

30 2.042

A researcher wants to test a hypothesis that two variables have a population correlation coefficient equal to zero. For a sample size of 30, the appropriate critical value for this test is plus-or-minus:

- A. 2.045
- B. 2.042
- C. 2.048

111. Based on a sample correlation coefficient of -0.525 from a sample size of 19, an

analyst calculates a t- statistic of $\frac{-0.525\sqrt{19-2}}{\sqrt{1-(-0.525)^2}} = -2.5433$. The analyst can reject the hypothesis that the population correlation coefficient equals zero:

- A. at a 1% significance level.
- B. at a 2% significance level, but not at a 1% significance level.
- C. at a 5% significance level, but not at a 2% significance level.

LOS 11.I: Distinguish between parametric and nonparametric tests and describe situations in which the use of nonparametric tests may be appropriate.

112. A test of whether a mutual fund's performance rank in one period provides information about the fund's performance rank in a subsequent period is best described as a:

- A. parametric test.
- B. nonparametric test.
- C. mean-rank test.



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R11 HYPOTHESIS TESTING

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R11 HYPOTHESIS TESTING

LOS 11.b: Distinguish between one-tailed and two-tailed tests of hypotheses.

95.Answer: A

This is a one-sided alternative because of the "less than" belief.

96.Answer: B

A Type I error is the rejection of the null when the null is actually true. The significance level of the test (α) (which is one minus the confidence level) is the probability of making a Type I error. A Type II error is the failure to reject the null when it is actually false.

LOS 11.d: Explain a decision rule, the power of a test, and the relation between confidence intervals and hypothesis tests.

97.Answer: A

This is the definition of the power of the test: the probability of correctly rejecting the null hypothesis (rejecting the null hypothesis when it is false).

98.Answer: C

The probability of getting a test statistic outside the critical value(s) when the null is true is the level of significance and is the probability of a Type I error. The power of a test is 1 minus the probability of a Type II error. Hypothesis testing does not prove a hypothesis, we either reject the null or fail to reject it.

LOS 11.f: Explain and interpret the p-value as it relates to hypothesis testing.

99.Answer: A

A p-value of 0.02% means that the smallest significance level at which the hypothesis can be rejected is 0.0002, which is smaller than 0.05 or 0.01. Therefore the null hypothesis can be rejected at both the 5% and 1% significance levels.

100.Answer: A

A p-value of 0.035 means the hypothesis can be rejected at a significance level of 3.5% or higher. Thus, the hypothesis can be rejected at the 10% or 5% significance level, but cannot be rejected at the 1% significance level.

LOS 11.j: Identify the appropriate test statistic and interpret the results for a hypothesis test concerning 1) the variance of a normally distributed population, and 2) the equality of the variances of two normally distributed populations based on two independent random samples

101.Answer: A

This is a two-tailed test. With a sample size greater than 30, using a z-test is acceptable. For a two-tailed z-test, the critical values are ± 1.645 for a 10% significance level, ± 1.96 for a 5% significance level, and ± 2.58 for a 1% significance level. The researcher should reject the hypothesis at the 10% and 5% significance levels, but fail to reject the hypothesis at the 1% significance level.

Using Student's t-distribution, the critical values for 60 degrees of freedom (the closest available in a typical table) are ± 1.671 for a 10% significance level, ± 2.00 for a 5% significance level, and ± 2.66 for a 1% significance level. The researcher should reject the hypothesis at the 10% and 5% significance levels, but fail to reject the hypothesis at the 1% significance level.

102.Answer: A

At a 5% significance level, the critical t-statistic using the Student's t distribution table for a one-tailed test and 29 degrees of freedom (sample size of 30 less 1) is 1.699 (with a large sample size the critical z-statistic of 1.645 may be used). Because the calculated t-statistic of 3.4 is greater than the critical t-statistic of 1.699, meaning that the calculated t-statistic is in the rejection range, we reject the null hypothesis and we conclude that the population mean is greater than 100.

103.Answer: C

With a large sample size (125) and an unknown population variance, either the t-statistic or the z-statistic could be used. Using the z-statistic, it is calculated by subtracting the hypothesized parameter from the parameter that has been estimated and dividing the difference by the standard error of the sample statistic. The test statistic = (sample mean – hypothesized mean) / (sample standard deviation / (sample size^{1/2})) = $(X - \mu) / (s / n^{1/2}) = (65,000 - 62,500) / (2,600 / 125^{1/2}) = (2,500) / (2,600 / 11.18) = 10.75$

104.Answer: C

If the population sampled has a known variance, the z-test is the correct test to use. In general, a t-test is used to test the mean of a population when the population is unknown. Note that in special cases when the sample is extremely large, the z-test may be used in place of the t-test, but the t-test is considered to be the test of choice when the population variance is unknown. A t-test is also used to test the difference between two population means while an F-test is used to compare differences between the variances of two populations.

105.Answer: B

A test of the equality of variances requires an F-statistic. The calculated F-statistic is $0.0083/0.0078 = 1.064$. Since the calculated F value of 1.064 is less than the critical F value of 1.61, we cannot reject the null hypothesis that the variances of the 2 stocks are equal.

106.Answer: C

The F-distributed test statistic, $F = s_1^2 / s_2^2$, is used to compare the variances of two populations

107.Answer: A

In tests of whether the variance of a population equals a particular value, the chi-squared test statistic is appropriate.

108.Answer: A

The F test is used to test the differences of variance between two samples.

109.Answer: B

Portfolio theory teaches us that returns on two stocks over the same time period are unlikely to be independent since both have some systematic risk. Because the samples are not independent, a paired comparisons test is appropriate to test whether the means of the two stocks' returns distributions are equal. A difference in means test is not appropriate because it requires that the samples be independent. A chi-square test compares the variances of two samples, rather than their means.

LOS 11.k: Formulate a test of the hypothesis that the population correlation coefficient equals zero and determine whether the hypothesis is rejected at a given level of significance.

110.Answer: C

The test statistic for a hypothesis test concerning population correlation follows a t-distribution with $n - 2$ degrees of freedom. For a sample size of 30 and a significance level of 5%, the sample statistic must be greater than 2.048 or less than -2.048 to reject the hypothesis that the population correlation equals zero.

111.Answer: C

With $19 - 2 = 17$ degrees of freedom, the critical values are plus-or-minus 2.110 at a 5% significance level, 2.567 at a 2% significance level, and 2.898 at a 1% significance level. Because the t-statistic of -2.5433 is less than -2.110 , the hypothesis can be rejected at a 5% significance level. Because the t-statistic is greater than -2.567 , the hypothesis cannot be rejected at a 2% significance level (or any smaller significance level).

LOS 11.l: Distinguish between parametric and nonparametric tests and describe situations in which the use of nonparametric tests may be appropriate.



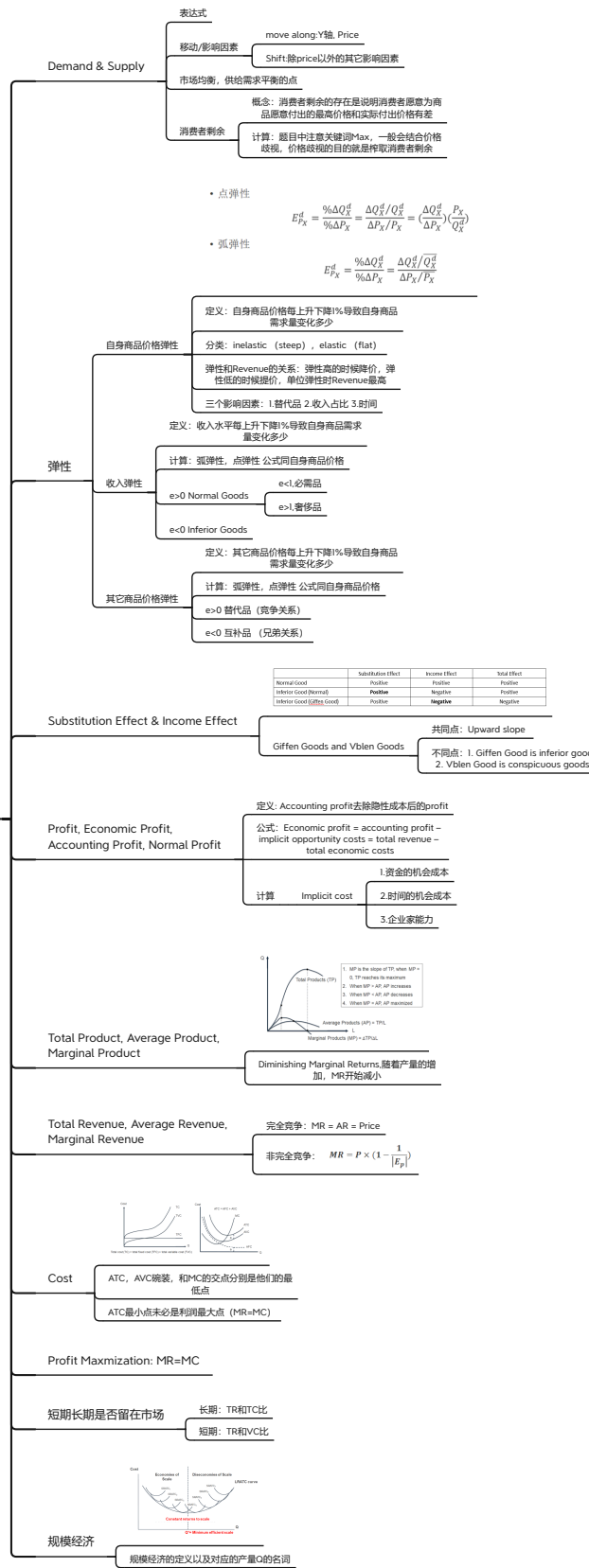
112. Answer: B

A rank correlation test is best described as a nonparametric test.



Economics

R12 Topics in Demand and Supply Analysis



R12 Topics in Demand and Supply Analysis

LOS 12.a: Calculate and interpret price, income, and cross-price elasticities of demand and describe factors that affect each measure

1. if the demand curve for a given product is a straight line, this indicates that:
 - A. demand is unit elastic.
 - B. demand is more elastic at higher prices.
 - C. elasticity is constant along the demand curve.
2. If the price elasticity of demand is -1.5 and a change in the price of the product increases the quantity demanded by 4%, then what is the percent change in price?
 - A. -0.375% .
 - B. -2.667% .
 - C. -6.000% .
3. The primary factors that influence the price elasticity of demand for a product are:
 - A. the proportions of consumers' budgets spent on the product, the size of the shift in the demand curve for a product, and changes in consumers' price expectations.
 - B. the availability of substitute goods, the time that has elapsed since the price of the good changed, and the proportions of consumers' budgets spent on the product.
 - C. changes in consumers' incomes, the time since the price change occurred, and the availability of substitute goods.
4. A good is most likely to demonstrate higher price elasticity of demand:
 - A. when there are few substitutes for the good, than when there are many good substitutes.
 - B. in the long run than the short run.
 - C. if it represents a small portion of the consumer's budget, th
5. The cross price elasticity of demand for a substitute good and the income elasticity for an inferior good are:

| | Cross elasticity | Income elasticity |
|----|------------------|-------------------|
| A. | > 0 | < 0 |
| B. | < 0 | > 0 |
| C. | < 0 | < 0 |

6. Gene Bawerk, an economics professor, is lecturing on the factors that influence the price elasticity of demand. He makes the following assertions:

Statement 1: For most goods, demand is more elastic in the long run than the short run.

Statement 2: Demand for a good becomes more elastic when a close substitute for it becomes available on the market.

With respect to Bawerk's statements:

- A. both are correct.
- B. only statement 1 is correct.
- C. only statement 2 is correct.

LOS 12.b: Compare substitution and income effects

7. When the price of a good decreases, how do the income effect and the substitution effect change the quantity demanded of the good?

- A. Both the income effect and the substitution effect increase the quantity demanded.
- B. The income effect increases the quantity consumed, but the substitution effect may increase or decrease the quantity demanded.
- C. The substitution effect increases the quantity demanded, but the income effect may increase or decrease the quantity demanded.

LOS 12.c: Distinguish between normal goods and inferior goods

8. A distinction between Giffen goods and Veblen goods is that:

- A. demand curves for Giffen goods slope upward, while demand curves for Veblen goods slope downward. (都是 upward)
- B. the substitution effect is positive for a Veblen good but negative for a Giffen good.
- C. Giffen goods are inferior goods, while Veblen goods are not inferior goods.

9. A decrease in the price of Good Y can result in a decrease of the quantity of Good Y demanded by consumers if the substitution effect:

- A. and the income effect are negative.
- B. is negative and larger than the positive income effect.

- C. is positive and the income effect is negative and larger than the substitution effect.
10. When household incomes go down and the quantity of a product demanded goes up, the product is:
- A. a normal good.
 - B. a Veblen good.
 - C. an inferior good.
11. A good for which consumers exhibit a negative income effect that is smaller than the substitution effect is most accurately described as a(n):
- A. Giffen good.
 - B. Veblen good.
 - C. inferior good.

LOS 12.d.: Product, Factor of production, diminishing marginal returns. Cost

12. John Klement is a soybean farmer who harvests 125,000 bushels of soybeans annually. Klement's fixed costs are \$200,000 and his variable costs are \$5 per bushel. Soybeans are currently priced at \$5.35 per bushel. Based on his estimates, Klement sees soybean prices being relatively stable for the next two years, then increasing to \$7.00 per bushel due to increased demand from Japan. What action should Klement take? Klement should:
- A. continue operating his business as usual.
 - B. shut down for two years and then restart his business.
 - C. cut his production by 50% for the next two years and then resume full production.
13. In the long run, if price is below average total cost (ATC) the firm will:
- A. shut down.
 - B. keep running.
 - C. cover its variable costs.
14. In the short run, if price is below average total cost (ATC) the firm will:
- A. raise prices.

- B. keep running as long as it is covering its variable costs.
 - C. produce more.
15. Suppose a price-taker firm produces baseball bats that sell at a price of \$100 each. This firm's average total cost at the current level of production is \$150 per bat, and the average fixed cost is \$40 per bat. Which of the following statements is most accurate regarding this firm? They should:
- A. shut down in the short run because their average variable cost is greater than their price.
 - B. shut down in the short run because their average total cost is greater than their price.
 - C. continue producing baseball bats because they are covering their fixed costs.

LOS 12.e: Determine and interpret breakeven and shutdown points of production

16. The upward sloping segment of a long-run average total cost curve represents the existence of:
- A. efficiencies of scale.
 - B. economies of scale.
 - C. diseconomies of scale.
17. Which of the following most accurately describes economies of scale? Economies of scale:
- A. increase at a decreasing rate.
 - B. are dependent on short-run average costs.
 - C. occur when long-run unit costs fall as output increases.

LOS 12.f: Describe how economies of scale and diseconomies of scale affect costs

18. Which of the following statements regarding diminishing marginal returns is most accurate?
- A. As the quantity produced rises, costs begin to rise at a decreasing rate.
 - B. As the quantity produced rises, costs begin to rise at an increasing rate.
 - C. The total cost curve arches downward.

19. The law of diminishing returns states that at some point as:
- A. more of a resource is devoted to production, holding the quantity of other inputs constant, the output will increase (TP 变大), but at a decreasing rate (MP 变小).
 - B. less of a resource are devoted to production, holding the quantity of other inputs constant, the output will decrease, but at an increasing rate.
 - C. more of a resource is devoted to production, holding the quantity of other inputs constant, at some point output will begin to decrease.
20. According to the law of diminishing returns, doubling the number of salespeople for a firm will most likely result in:
- A. doubling the total sales of the firm.
 - B. increasing the total sales of the firm and reducing the average sales per salesperson.
 - C. decreasing the total sales of the firm as a result of competition amongst salespeople.



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R12 Topics in Demand and Supply Analysis

甄选题答案

R12 Topics in Demand and Supply Analysis

LOS 12.a: Calculate and interpret price, income, and cross-price elasticities of demand and describe factors that affect each measure

1.Answer:B

2.Answer:B

3.Answer:B

(三个影响因素)

4.Answer:B

(还是三个影响因素)

5.Answer:A

自身商品价格和自身商品需求量负相关，替代品是竞争关系，所以反一反 cross elasticity 就是正，劣质品收入弹性为负（收入越高，对劣质品的需求量越低）

6.Answer:A

LOS 12.b: Compare substitution and income effects

7.Answer:C

LOS 12.c: Distinguish between normal goods and inferior goods

8.Answer:C

(知识点回顾: Veblen 和 Giffen 商品的两个区别: 1.C. 2.Giffen 商品有理论依据, 而 Veblen 是假想商品 Conspicuous)

9.Answer:C

S.E.永远是正效应的也就是 P 下降 Q 上升, 但题目里 P 下降 Q 下降所以 T.E.是负效应的, 所以 I.E 是 negative effect 且比 S.E 厉害

10.Answer:C

I 下降, Q 上升, 收入弹性 < 0

11.Answer:C

LOS 12.d.: Product, Factor of production, diminishing marginal returns. Cost

12.Answer:A

P=5.35 长期而言退出市场 短期而言因为 > Variable cost 继续留在市场减少固定成本带来的损失, P=7 长期短期都要留在市场因为有 profit

13.Answer:A

14.Answer:B

15.Answer:A

LOS 12.e: Determine and interpret breakeven and shutdown points of production

16.Answer:C

17.Answer:C

LOS 12.f: Describe how economies of scale and diseconomies of scale affect costs

18.Answer:B

diminishing marginal returns: Marginal Product 变小，开始变小的过程因为 MP 还是正的所以 TP (quantity) 还是上升，上升速度越来越快，参照规模不经济那半截图

19.Answer:A

20.Answer:B

MP 变小当 $MP < AP$ 时，AP 变小

R13 The firm and Market Structure

| | Perfect competition | Monopolistic competition | Oligopoly | Monopoly |
|-------------------------------|-----------------------|-------------------------------------|---|---------------------|
| Number of sellers | Many firms | Many firms | Few firms | Single firm |
| Barriers to entry | Very low | Low | High | Very high |
| Nature of substitute products | Very good substitutes | Good substitutes but differentiated | Very good substitutes or differentiated | No good substitutes |
| Nature of competition | Price only | Price, marketing, features | Price, marketing, features | Advertising |
| Pricing power | None | Some | Some to significant | Significant |

各市场的基本特征

完全竞争市场

特征, $P=MR=AR$, 对于单个 firm 需求曲线是 horizontal 的
Profit: short term 可能会有 economic profit; long term, 随着新进入者瓜分 profit, $EP=0$

垄断竞争市场

特征, 需求曲线比较平坦
Profit: short term 可能会有 economic profit; long term, 随着新进入者瓜分 profit, $EP=0$
如何在竞争中 stand out

- Innovation
- Advertisement
- Brand

寡头市场

特征, 注意厂商和厂商之间是 interdependent
四个模型

- Kinked Demand Curve
 - 为何出现: 涨价不跟, 跌价跟
 - 缺点: 1. 这个模型没告诉你如何计算拐点那个 price 如何计算 2. MR 不连续, 当中有个 Gap
- Cournot Model, 一个市场两家双胞胎企业, 产能以及 cost structure 都一样

 Nash 均衡

- 会判断双方会如何选择
- 个体最优并非整体最优解

 Dominant Firm

- 特征: 1. 大厂商类似完全垄断 2. 小厂商类似完全竞争
- 短期而言如果小厂商降价会使大厂商 (因为规模经济) 市场份额变大
- 长期而言随着新进入者的增加会使大厂商市场份额变小

完全垄断市场

特征及进出入壁垒

- Natural Barrier
- Legal Barrier

 三级价格歧视

- 一级: 按消费者心理价位
- 二级: 量
- 三级: 人群特征

 Price Control

- $P=ATC$, 比较常见
- $P=MC$, 此时政府一般要给补助

集中程度指标

计算
缺点

- N firm: 没考虑 M&A 和 Barrier
- HHI: 考虑了 M&A 但没考虑 Barrier



R13 The Firm and Market Structure

LOS 13.a: Describe characteristics of perfect competition, monopolistic competition, oligopoly, and pure monopoly

21. Monopolistic competition differs from pure monopoly in that:
 - A. monopolistic competitors have low barriers to entry and monopolists do not.
 - B. monopolists maximize profits and monopolistic competitors do not.
 - C. monopolistic competitors are price takers(完全竞争) and monopolists are not.

22. An oligopolistic firm:
 - A. is likely to be formed when the minimum-cost output is only a small portion of the market output.
 - B. will seldom use product quality as a competitive weapon.
 - C. will consider the potential response of its rivals when making business decisions.

23. Which one of the following is most likely to contribute to the presence of monopoly in an industry?
 - A. Diseconomies of scale.
 - B. Inefficiency attributable to bureaucratic decision-making procedures in the industry.
 - C. Legal barriers to entry into the industry.

24. Under which type of market structure are the production and pricing alternatives of a firm most affected by the decisions of its competitors?
 - A. Oligopoly.
 - B. Monopolistic competition.
 - C. Perfect competition.

25. Successful advertising and product differentiation are most likely to have a positive impact on the economic profits of a producer under:
 - A. A monopolistic competition.
 - B. B perfect competition.

- C. C monopoly.
26. Which of the following is least accurate regarding product development and marketing for firms under monopolistic competition?
- A. Firms that bring new and innovative products to the market face relatively more elastic demand curves than their competitors. Inelastic
 - B. Relative to other types of competition, product innovation is critical to the pursuit of economic profits.
 - C. Brand names can provide consumers with information regarding the quality of firm's products.
27. The demand curves faced by monopolistic competitors is:
- A. inelastic due to the availability of many complementary goods.
 - B. elastic due to the availability of many close substitutes.
 - C. not sensitive to price due to absence of close substitutes.
28. Natural monopolies exist because they can produce at lower costs with greater output, which means there are economies of scale. Which of the following industries is typically a natural monopoly?
- A. Utilities.
 - B. Oil.
 - C. Technology.

LOS 13.b: Explain relationships between price, marginal revenue, marginal cost, economic profit, and the elasticity of demand under perfect competition

29. Consider the following statements:

Statement 1: "A natural monopoly exists when economies of scale are so pronounced that all of an industry's demand should be supplied by one firm."

Statement 2: "Monopoly is characterized by a single seller of a distinct product for which no good substitutes exist."

Statement 3: "Average cost pricing is a form of regulation that is intended to force monopolists to reduce output to the point where the monopolist's average total cost curve intersects its marginal cost curve."

Which of the following best describes the accuracy of these statements?

- Statement 1 Statement 2 Statement 3

- | | | | |
|----|-----------|-----------|-----------|
| A. | Correct | Correct | Incorrect |
| B. | Incorrect | Correct | Incorrect |
| C. | Correct | Incorrect | Correct |

30. A monopolist will continue expanding output as long as:

- A. marginal revenue is greater than marginal cost.
- B. marginal revenue is positive.
- C. economic profit is greater than zero.

31. If a market features differentiated products but has low barriers to entry, in long-run equilibrium the firms in the market will earn:

- A. substantial economic profits.
- B. zero economic profits.
- C. substantial economic losses.

LOS 13.d

32. Assume that a firm in an oligopoly market believes the demand curve for its product is more elastic above a specific price than below this price. This belief is most closely associated with which of the following models?

- A. Dominant firm model.
- B. Nash equilibrium model.
- C. Kinked demand model.

33. In the dominant firm model of oligopoly, it is least likely that one firm:

- A. has a significant cost advantage over its competitors.
- B. is the innovation leader in product development.
- C. effectively sets the price in the market.

34. Which of the following is least likely to be considered a necessary condition for a monopolist to realize profits from price discrimination?

- A. A product for which the demand curve is downward sloping.
- B. Two different costs of production.

- C. The ability to prevent trading between customers in different price groups.
35. Statement 1: "The kinked demand curve model of oligopoly assumes that a decrease in price will not be followed by other firms in the industry, but a price increase will."反了
 Statement 2: "Firms in monopolistic competition have high advertising expenses because they want to create the perception that their product is different from their competitors' products when the competing products are actually quite similar."
 With respect to these statements:
- A. both are incorrect.
- B. both are correct.
- C. only one is correct.
36. Consider a price fixing agreement between Spain and Italy that restricts cheese production such that maximum economic profit will be realized by both countries. The possible outcomes of the agreement are presented in the table below. Based on the Prisoners' Dilemma framework, the most likely strategy followed by the two countries will be:

| | Italy Complies | Italy Defaults |
|----------------|--|--|
| Spain Complies | Spain gets €7 billion Italy gets €7 billion | Spain gets €3 billion Italy gets €9 billion |
| Spain Defaults | Spain gets €9 billion Italy gets €3 billion | Spain gets €5 billion Italy gets €5 billion |

- A. both countries will increase output.
- B. neither country will increase output.
- C. Italy will increase output; Spain will produce at the agreed level.
37. (★★) Compared to a competitive market, a monopoly situation will produce:
- A. less output, and the sum of the consumer surplus and the producer surplus will be increased.
- B. less output, and the sum of the consumer surplus and the producer surplus will be reduced.
- C. more output, and the sum of the consumer surplus and the producer surplus will be reduced.

LOS 13.e

38. In order for effective price discrimination to occur the seller must:
- A. have more than one identifiable group of customers with the same price elasticities of demand for the product.
 - B. maximize revenue by selling at the highest price possible.
 - C. face a demand curve with a negative slope.
39. In a study seminar, the following comments were made:
- Comment 1: "In the short run, an increase in demand in a perfectly competitive industry will result in negative economic profit for some firms in the industry."
- Comment 2: "In the long run, a permanent increase in demand in a perfectly competitive industry will result in zero economic profit for the firms in the industry."
- With respect to these comments:
- A. both are incorrect.
 - B. both are correct.
 - C. only one is correct.

LOS 13.f

40. In which of the following industry structures is a firm least likely able to increase its total revenue by decreasing the price of its output?
- A. Perfect competition.
 - B. Oligopoly.
 - C. Monopolistic competition.

LOS 13.g: Describe the use and limitations of concentration measures in identifying market structure

41. The most effective way to assess the impact of a potential merger on the market structure of an industry is to:
- A. calculate the Hirfndahl-Hirschman Index.
 - B. analyze barriers to entry.
 - C. calculate the n-firm concentration ratio.

LOS 13.h:

42. A firm has the following characteristics:

relatively small in size.

marginal revenue is equal to the selling price.

economic profits will not be earned for any significant period of time. The firm is best described as existing in a(n):

- A. price searcher market.
 - B. monopolistic market structure.
 - C. purely competitive market.
43. Assume that the market for paper supplies and the market for toothpicks have the following characteristics: The Market for Paper Supplies is comprised of:
- A large number of independent sellers
 - Differentiated products
 - Low barriers to entry/exit
- The Market for Toothpicks is comprised of:
- A large number of independent sellers
 - Homogeneous products
 - No barriers to entry/exit
- The Papyrus Company operates in the market for paper supplies and Wudden Floss operates in the toothpick market. The sales managers for both companies want to know how a change in price will affect the quantity sold.
- Which of the following choices best completes the following sentence? If both firms increase prices, the quantity sold by Papyrus Company will:
- A. decrease, and so will the quantity sold by Wudden Floss.
 - B. increase, and the quantity sold by Wudden Floss will decrease.
 - C. decrease, and Wudden Floss will sell nothing.

R13 The Firm and Market Structure

甄选题答案

R13 The Firm and Market Structure

LOS 13.a: Describe characteristics of perfect competition, monopolistic competition, oligopoly, and pure monopoly

21.Answer:A

22.Answer:C

C 说出了寡头的特点

23.Answer:C

24.Answer:A

只有寡头 interdependent

25.Answer:A

26.Answer:A

27.Answer:B

28.Answer:A

With a natural monopoly average costs of production will be lowest when a single large firm produces the entire output demanded such as a utility.

LOS 13.b: Explain relationships between price, marginal revenue, marginal cost, economic profit, and the elasticity of demand under perfect competition

29.Answer:A

30.Answer:A

31.Answer:B

LOS 13.d

32.Answer:C

33.Answer:B

出的不好，排除法，题目想说的是 B 是垄断竞争 innovation

34.Answer:B

记住 A 和 C 是价格歧视的前提假设

35.Answer:C

36.Answer:A

37.Answer:B

先判断 output 是小于完全竞争，然后完全垄断中出现的价格歧视是为了把消费者剩余都赚到手

LOS 13.e

38.Answer:C

In order for effective price discrimination to occur, the seller must have a downward sloping demand curve. The seller must also have at least two identifiable groups of customers with price elasticities of demand for the product, and the seller must be able to prevent customers from reselling the product.

39.Answer:C

Comment 1 is incorrect because an increase in industry demand will increase equilibrium price and output. At the higher price, firms will earn positive economic profits in the short run because the higher price will exceed average total cost. Over the long run, however, new firms will enter the market to exploit the positive economic profits, causing prices to decline until all firms are again earning zero economic profit.

LOS 13.f

40.Answer:A

LOS 13.g: Describe the use and limitations of concentration measures in identifying market structure

41.Answer:A

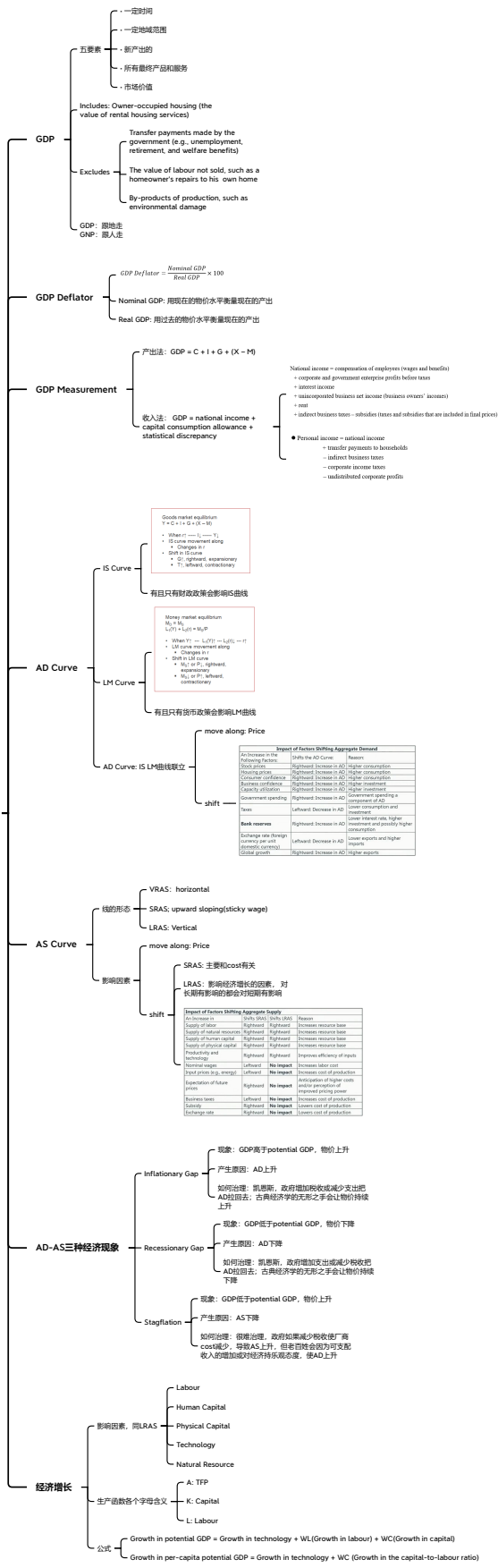
LOS 13.h:

42.Answer:C

43.Answer:C

完全竞争

R14 AGGREGATE OUTPUT, PRICES, AND ECONOMIC GROWTH



R14 AGGREGATE OUTPUT, PRICES, AND ECONOMIC GROWTH

LOS 14.b: Compare the sum-of-value-added and value-of-final-output methods of calculating GDP

LOS 14.c: Compare nominal and real GDP and calculate and interpret the GDP deflator

44. The GDP deflator is the percentage difference between:

- A. nominal GDP and real GDP.
- B. GDP calculated using the value-of-final-output method and the sum-of-final-output method.
- C. GDP calculated using the income and expenditure approaches.

45. Nominal GDP for the year 20X7 is \$784 billion and real GDP is \$617 billion. If the base period for the GDP deflator is 20X1, the annual rate of increase in the GDP deflator since the base year is closest to:

- A. 4.0%.
- B. 3.5%.
- C. 4.5%.

LOS 14.d: Compare GDP, national income, personal income, and personal disposable income

46. In measures of national economic output, realized capital gains on assets purchased in an earlier period are a component of:

- A. gross national product, but not gross domestic product.
- B. gross domestic product, but not gross national product.
- C. neither gross domestic product nor gross national product.

47. Components of national income include:

- A. rent, interest income, and capital consumption allowance.
- B. wages and benefits, corporate profits, and indirect business taxes less subsidies.
- C. government enterprise profits, unincorporated business net income, and statistical discrepancy.

LOS 14.e: Explain the fundamental relationship among saving, investment, the fiscal balance, and the trade balance

48. In the short run, a firm operating in a perfectly competitive market will most likely avoid shutdown if it is able to earn sufficient revenue to cover which of the following costs?
- A. A Fixed
 - B. B Marginal
 - C. C Variable
49. If private saving equals private business investment, a trade surplus implies that there is:
- A. no fiscal surplus or deficit.
 - B. a fiscal surplus.
 - C. a fiscal deficit.
50. If the government is running a budget deficit, which of the following relationships are least likely to occur in the economy at the same time?
Exports relative to imports Savings relative to investment
- A. exports < imports private savings < private investment
 - B. exports < imports private savings > private investment
 - C. exports > imports private savings < private investment

LOS 14.f: Explain the IS and LM curves and how they combine to generate the aggregate demand curve

51. Which of the following is least likely a reason that the aggregate demand curve slopes downward?
- A. The wealth effect causes consumers to spend less when the price level rises.
 - B. Business investment declines as a rising price level increases interest rates.
 - C. Because entitlements are adjusted for inflation, a rising price level forces government spending to increase.
52. Which of the following statements concerning aggregate demand is most accurate?
- A. When price levels fall, real wealth increases, and individuals will spend less.
 - B. When price levels rise, real wealth decreases, and individuals will spend less.

C. When price levels rise, real wealth increases, and individuals will spend more.

53. The LM curve is drawn holding which of the following factors constant?

- A. Real GDP.
- B. Real money supply.
- C. Real interest rate.

54. The IS curve illustrates the:

- A. inverse relationship between real interest rates and income.
- B. direct relationship between investment and savings.
- C. inverse relationship between income and the price level.

LOS 14.g: Explain the aggregate supply curve in the short run and long run

55. Because some input prices do not adjust rapidly to changes in the price level, the short-run aggregate supply curve:

- A. is more elastic than the long-run aggregate supply curve.
- B. may be interpreted as representing the economy's potential output.
- C. exhibits a negative relationship between quantity supplied and the price level.

56. The long-run aggregate supply curve is best described as:

- A. elastic because most input prices are variable in the long run.
- B. perfectly inelastic because input prices change proportionately with the price level in the long run.
- C. perfectly elastic because input prices are sticky in the long run.

LOS 14.h: Explain causes of movements along and shifts in aggregate demand and supply curves

57. The sustainable growth rate of real GDP is most likely to be increased by:

- A. an increase in government spending.
- B. an increase in the propensity to consume by households.
- C. the discovery of untapped oil fields.

58. When national income in an important trading partner's economy increases, aggregate demand in the domestic economy is most likely to:

- A. decrease because interest rates in the domestic economy will tend to increase.

- B. increase because foreign consumers will tend to buy more export goods from the domestic country.
 - C. decrease because foreign consumers will tend to buy less export goods from the domestic country.
59. Which of the following events is least likely to cause a decrease in short-run aggregate supply?
- A. Oil exporting countries reduce their production levels.
 - B. Inflation increases from 4% to 7%.
 - C. A labor stoppage causes the price of steel to rise.

LOS 14.i: Describe how fluctuations in aggregate demand and aggregate supply cause short-run changes in the economy and the business cycle

60. Which of the following choices best describes the effects on consumption, investment, and net exports that would result from an increase in the price level, other factors held constant?

| | Consumption | Investment | Net exports |
|----|-------------|------------|-------------|
| A. | Decrease | Decrease | Decrease |
| B. | Decrease | Increase | Increase |
| C. | Increase | Increase | Increase |

LOS 14.j: Distinguish between the following types of macroeconomic equilibria: long-run full employment, short-run recessionary gap, short-run inflationary gap, and short-run stagflation

61. A reduction in short-run aggregate supply is most likely to be accompanied by an increase in:
- A. the price level.
 - B. real GDP.
 - C. real interest rates.
62. If money wages increase, other things equal, the most likely result is a:
- A. long-run inflationary gap.
 - B. short-run inflationary gap.
 - C. short-run recessionary gap.

LOS 14. k:

63. An increase in aggregate demand can result in output greater than potential GDP in:
- A. the short run only.
 - B. neither the short run nor the long run.
 - C. the short run and the long run.
64. Can an economy that is at long-run equilibrium adjust to produce real GDP which is greater than full-employment real GDP in the short run?
- A. Yes, if wages increase.
 - B. No.
 - C. Yes, if aggregate demand increases.

LOS 14.l: Analyze the effect of combined changes in aggregate supply and demand on the economy

65. Which of the following is most likely to occur in the short run aggregate demand decreases due to a reduction in business and consumer optimism?
- A. An increase in the rate of unemployment.
 - B. A higher rate of inflation.
 - C. An increase in real GDP.

LOS 14. m: Describe sources, measurement, and sustainability of economic growth

66. Sources of long-run economic growth most likely include increases in:
- A. government spending, labor supply, and physical capital.
 - B. human capital, money supply, and natural resources.
 - C. labor supply, physical capital, and technology.

LOS 14.n: Describe the production function approach to analyzing the sources of economic growth

67. In the production function approach to analyzing economic growth, total factor productivity accounts for:
- A. output growth not attributable to growth in labor and capital.
 - B. technological advances and growth of the labor force.

- C. capital deepening and any increase in the amount of capital available.
68. When the sources of economic growth are stated as a production function, which factor is treated as a multiplier?
- A. Total factor productivity.
 - B. Amount of capital available.
 - C. Size of the labor force.

LOS 14.o: Distinguish between input growth and growth of total factor productivity as components of economic growth

69. Consider an economy in which labor's relative share of national income is 60%. For which of the following sources of economic growth will a 1% increase result in the largest increase in potential GDP?
- A. Technology.
 - B. Labor.
 - C. Capital.
70. Over the last five years, in the country of Midlothian, both the labor supply and the real stock of physical capital have increased by 20% and real GDP increased 22%. The reason that real GDP growth was greater than input growth over the period is most likely that:
- A. the production function is multiplicative.
 - B. total factor productivity increased.
 - C. money wages decreased.



R14 AGGREGATE OUTPUT, PRICES, AND ECONOMIC GROWTH

甄选题答案

R14 AGGREGATE OUTPUT, PRICES, AND ECONOMIC GROWTH

LOS 14.b: Compare the sum-of-value-added and value-of-final-output methods of calculating GDP

LOS 14.c: Compare nominal and real GDP and calculate and interpret the GDP deflator

44.Answer:A

45.Answer:A

GDP deflator = \$784 billion / \$617 billion × 100 = 127.07. Annual rate of increase = (127.07 / 100)^{1/6} – 1 = 0.0407 = 4.07%.

LOS 14.d: Compare GDP, national income, personal income, and personal disposable income

46.Answer:C

47.Answer:B

排除法

| GDP calculation | | |
|-----------------|-----------------------------|--|
| 分类 | Expenditure Approach | <ul style="list-style-type: none"> ➤ GDP = C + I + G + (X-M) ● Consumption : C = a + b (Y - Tax) → b = MPC ● Investment: r 上升 → Investment 下降 |
| | Income Approach | <ul style="list-style-type: none"> ➤ GDP = national income + capital consumption allowance + statistical discrepancy ➤ National income <ul style="list-style-type: none"> = compensation of employees (wages and benefits) + corporate and government enterprise profits before taxes + interest income + unincorporated business net income (business owners' incomes) + rent + indirect business taxes less subsidies ➤ Personal income = national income – indirect business tax – corporate income tax – undistributed corporate profit + Transfer payment ➤ Personal disposable income = personal income – personal taxes ➤ GDP=C+S+T |

LOS 14.e: Explain the fundamental relationship among saving, investment, the fiscal balance, and the trade balance

48.Answer:C

49.Answer:B

列公式 $(X - M) = (S - I) - (G - T)$

50.Answer:C

$G-T>0 (G - T) = (S - I) - (X - M)$

A government budget deficit, a trade surplus, and an excess of private investment over private savings cannot all occur at the same time. If the government runs a budget deficit, the deficit must be financed by a trade deficit (exports < imports), surplus private savings (private savings > private investment), or both.

LOS 14.f: Explain the IS and LM curves and how they combine to generate the aggregate demand curve

51.Answer:C

AD 研究的是 real gdp 和 P 的变化，不是 nominal 的

52.Answer:B

wealth effect

53.Answer:B

MS/P

54.Answer:A

LOS 14.g: Explain the aggregate supply curve in the short run and long run

55.Answer:A

线的形态

56.Answer:B

线的形态

LOS 14.h: Explain causes of movements along and shifts in aggregate demand and supply curves

57.Answer:C

LRAS 影响因素

| Impact of Factors Shifting Aggregate Supply | | | |
|---|-------------|------------------|--|
| An Increase in | Shifts SRAS | Shifts LRAS | Reason |
| Supply of labor | Rightward | Rightward | Increases resource base |
| Supply of natural resources | Rightward | Rightward | Increases resource base |
| Supply of human capital | Rightward | Rightward | Increases resource base |
| Supply of physical capital | Rightward | Rightward | Increases resource base |
| Productivity and technology | Rightward | Rightward | Improves efficiency of inputs |
| Nominal wages | Leftward | No impact | Increases labor cost |
| Input prices (e.g., energy) | Leftward | No impact | Increases cost of production |
| Expectation of future prices | Rightward | No impact | Anticipation of higher costs and/or perception of improved pricing power |
| Business taxes | Leftward | No impact | Increases cost of production |
| Subsidy | Rightward | No impact | Lowers cost of production |
| Exchange rate | Rightward | No impact | Lowers cost of production |

58.Answer:B

trading partner 的经济情况会影响我国出口

59.Answer:B

Real 的量

LOS 14.i: Describe how fluctuations in aggregate demand and aggregate supply cause short-run changes in the economy and the business cycle

60.Answer:A

P 上升, Demand 下降, inflation 上升, 名义利率上升, Inv 下降

LOS 14.j: Distinguish between the following types of macroeconomic equilibria: long- run full employment, short-run recessionary gap, short-run inflationary gap, and short- run stagflation

61.Answer:A

画图

62.Answer:C

首先 inflationary gap 不可能长期持续, 所以 A 不对, 然后这题说 cost 增加 SRAS 不足所以其实最好的答案应该是 stagflation, 但没这个选项, 然后因为劳动力成本过高, 工厂不愿意生产导致产出下降最后导致 GDP 下降。

LOS 14. k:

63.Answer:A

大于 potential GDP 不可能长期持续

From long-run equilibrium, an increase in aggregate demand can result in short-run equilibrium output greater than potential GDP. However, this above-full-employment output cannot be sustained in the long run because upward pressure on input costs (e.g., wages) will decrease short-run aggregate supply, decreasing output back to the full-employment level in the long run.

64.Answer:C

full employment 不代表没有失业

LOS 14.l: Analyze the effect of combined changes in aggregate supply and demand on the economy

65.Answer:A

AD 减少 recessionary gap

LOS 14. m: Describe sources, measurement, and sustainability of economic growth

66.Answer:C

LOS 14.n: Describe the production function approach to analyzing the sources of economic growth

67.Answer:A

TFP 指全部生产要素（包括资本、劳动）的投入量都不变时，而生产量仍能增加的部分。所谓纯技术进步包括知识、教育、技术培训、规模经济、组织管理等方面的改善，但又不能归因于 Capital 和 Labour，所以又称为非具体化的技术进步

68.Answer:A

The Cobb-Douglas production function with labor efficiency. Consider the following two production functions:

$$Y = \bar{A}K^{\alpha}L^{1-\alpha} \quad (2)$$

LOS 14.o: Distinguish between input growth and growth of total factor productivity as components of economic growth

69.Answer:A

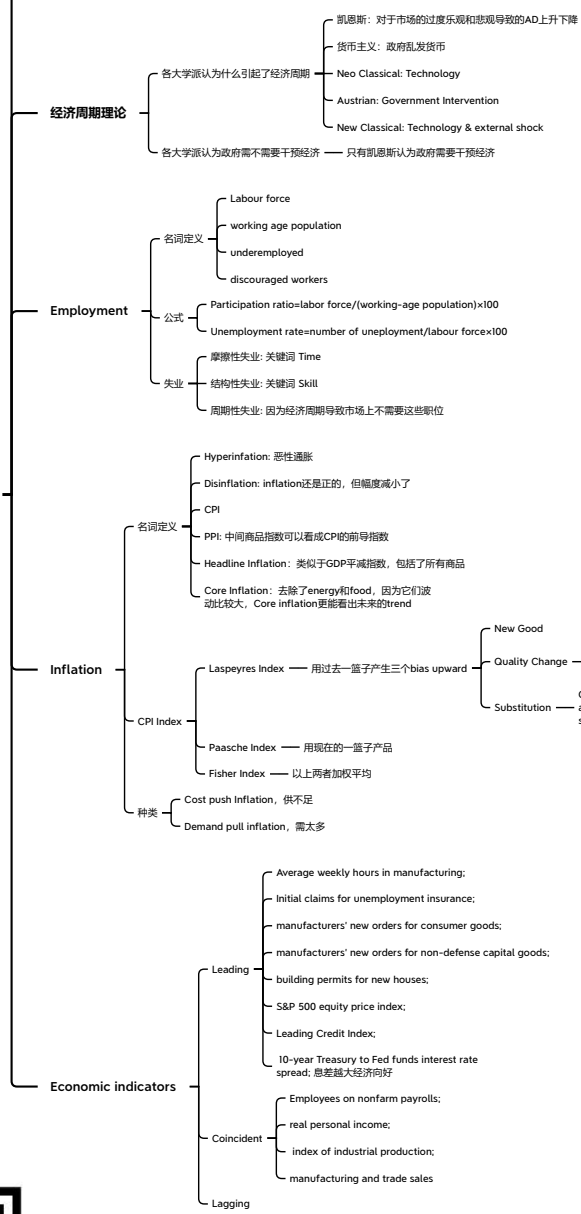
就像上题说的 TFP 是 multiplier 而 K 和 L 之前都有个小于 1 的乘数

70.Answer:B

Any excess of real GDP growth over the rate of growth in labor and capital indicates there has been an increase in total factor productivity.因为 Capital 的系数最多为 1

R15. UNDERSTANDING BUSINESS CYCLES

| Phase | Recovery | Expansion | Stagnation | Contraction |
|--|--|--|---|---|
| Description | Economy coming through a trough. Negative output gap starts to narrow. | Economy opening an opening. Positive output gap forms. | Economy going through a peak. Positive output gap starts to narrow. | Economy reaches and may go into a recession. Negative output gap forms. |
| Activity levels - consumers and business | Activity levels start to increase. | Activity increases then slows as output growth rates fall. | Activity increases then slows as output growth rates fall. | Activity increases then slows as output growth rates fall. |
| Employment | Unemployment falls as businesses start to hire again. | Businesses start to hire again and employment continues to rise. | Businesses continue hiring but at a slower pace. Unemployment starts to rise. | Businesses start to lay off workers. Unemployment rises. |
| Inflation | Inflation remains moderate. | Inflation picks up modestly. | Inflation further accelerates. | Inflation decelerates but with a lag. |



R15 UNDERSTANDING BUSINESS CYCLES

LOS 15.a: Describe the business cycle and its phases

71. A peak in the business cycle is most likely associated with:

- A. the highest level of economic output during the cycle.
- B. payroll employment turning from positive to negative.
- C. decreasing inflation pressure.

LOS 15.b: Describe how resource use, housing sector activity, and external trade sector activity vary as an economy moves through the business cycle.

72. A firm's most likely initial response to a cyclical increase in the inventory-to-sales ratio is to adjust their utilization of labor by:

- A. laying off employees.
- B. reducing overtime.
- C. adding new workers.

73. (AA)When the economy enters an expansion phase, the most likely effect on external trade is a(n):

- A. decrease in exports.
- B. increase in imports.
- C. increase in exports.

74. An economy has been producing at its full-employment level of output and the price level has been stable. Businesses then begin experiencing unintended decreases in their inventory levels. What does this most likely imply about the short-run outlook for economic growth and inflation?

- | Economic growth | Inflation |
|-----------------|------------|
| A. Increasing | Increasing |
| B. Decreasing | Increasing |
| C. Increasing | Decreasing |

75. As an economic expansion approaches its peak, the economy is most likely to show:

- A. a decrease in inventory levels.
 - B. accelerating sales growth. Sales
 - C. an increase in the inventory-to-sales ratio.
76. During an economic contraction:
- A. real GDP growth is greater than its sustainable long-term rate.
 - B. the unemployment rate typically decreases.
 - C. inflation pressures are typically decreasing.
77. Which of the following statements regarding inflation is most accurate?
- A. The purchasing power of money increases as a result of inflation.
 - B. As a result of inflation, all borrowers gain at the expense of lenders.
 - C. Inflation is a persistent increase in the general price level of goods and services.

LOS 15.c: Describe theories of the business cycle

78. Which of the following statements is most accurate regarding monetarists? Monetarists believe that:
- A. fiscal policy is the most powerful of all government tools used to affect prices and output.
 - B. steady, predictable money growth is the best monetary policy.
 - C. discretionary monetary policy is the best way to moderate fluctuations in prices and output.
79. At a recent symposium, "The Great Economic Debate of the Decade" several panelists were asked to state their opinions on aggregate demand and aggregate supply. Panelist 1 stated that he believed shifts in both aggregate demand and aggregate supply were driven primarily by changes in technology over time. Panelist 2 stated that she believed the focus of economic policy should be to directly increase aggregate demand by increasing the money supply or through fiscal policy. The views of Panelist 1 and Panelist 2 would best be described as which economic school of thought?
- | | Panelist 1 | Panelist 2 |
|----|---------------|---------------|
| A. | Keynesian | New Keynesian |
| B. | New Classical | Monetarist |

C. Neoclassical Keynesian

80. According to Keynesian school theory, business cycles are caused by:

- A. changes in technology over time.
- B. inappropriate variations in the growth of the money supply.
- C. excessive optimism or pessimism among business managers.

LOS 15.d: Describe types of unemployment and compare measures of unemployment.

81. Assuming all other factors remain unchanged, which of the following changes would most likely cause a simultaneous increase in the participation ratio and a decrease in the unemployment rate?

- A. A decrease in the number of unemployed people
- B. A decrease in the total population of working-age people
- C. An increase in the number of people included in the labor force

82. Steve Walker, CFA, is attending an economics lecture, during which the lecturer makes the following two statements about consumer price inflation:

Statement 1: High-definition televisions are considerably more expensive than traditional models. This means consumers are spending more money per television unit, which represents a form of inflation.

Statement 2: Employment contracts with automatic increases based on the Consumer Price Index fail to increase wages as much as the increase in the cost of living because of biases in the price index.

Should Walker agree or disagree with these statements?

| Statement 1 | Statement 2 |
|-------------|-------------|
|-------------|-------------|

- | | |
|-------------|----------|
| A. Disagree | Agree |
| B. Agree | Agree |
| C. Disagree | Disagree |

83. Which of the following is best described as an example of structural unemployment?

- A. When the plant was modernized, Jones lost her job because she did not have the skill needed to operate the new equipment.

- B. Although there were jobs available, Johnson was unable to find an employer with a satisfactory opening.
- C. Smith was laid off due to negative growth of GDP, and did not seek other employment until he was recalled to his job.
84. Bradley works a 14-hour-per-week job as a bartender at McQuigley's Pub. Maddeline left her position at a commercial bank to raise her two-year old daughter. How would these individuals be classified from the viewpoint of employment statistics?
- | Bradley | Maddeline |
|-----------------------|--------------------|
| A. Employed | Not in labor force |
| B. Not in labor force | Not in labor force |
| C. Employed | Employed |
85. Which type of unemployment describes situations where qualified workers are not immediately matched with existing job openings?
- A. Structural.
- B. Cyclical.
- C. Frictional.
86. When individuals are unemployed because they do not have perfect information concerning available jobs, this is:
- A. natural unemployment.
- B. structural unemployment.
- C. frictional unemployment.
87. Unemployment can be divided into the following three categories:
- A. Frictional, seasonal, cyclical.
- B. Frictional, cyclical, structural.
- C. Technical, frictional, seasonal.

LOS 15.e: Explain inflation, hyperinflation, disinflation, and deflation

88. Which of the following statements regarding inflation is most accurate?
- A. Inflation occurs when there is a steady increase in the relative prices of key commodities.

- B. An economy experiences inflation when there is a persistent increase in the prices of almost all goods and services.
 - C. Inflation is present if the prices of some goods and services are increasing.
89. (AA) Joe Lebow, an analyst, is discussing the difference between inflation and price level. Lebow states: "The higher the price level in the current year compared to the price level in the previous year, the higher is the inflation rate of a country. Any increase in the price level is evidence of positive inflation." Lebow's statement is:
- A. correct.
 - B. incorrect because not all increases in the price level indicate inflation.
 - C. incorrect because it inaccurately describes the calculation of an inflation rate.
90. An economy with a consistently negative inflation rate is best described as experiencing:
- A. deflation.
 - B. disinflation.
 - C. hyperinflation.

LOS 15.f: Explain the construction of indexes used to measure inflation

91. The following data are for a basket of three consumption goods used to measure the rate of inflation:

| Goods | Prior Year | | Current Year | |
|---------------------|------------|--------|--------------|--------|
| | Quantity | Price | Quantity | Price |
| 5 lb. bag sugar | 150 bags | \$3.12 | 180 bags | \$2.92 |
| 5 lb. bag flour | 800 bags | \$2.18 | 750 bags | \$3.12 |
| Frozen pizza (each) | 250 | \$2.90 | 250 | \$3.00 |

- Using the consumption basket for the current year, the Paasche Index is closest to:
- A. 124.6.
 - B. 123.7.
 - C. 125.4.
92. Which of the following statements most accurately describes the difference between headline inflation and core inflation?
- A. Core inflation does not include food and energy prices.

- B. Headline inflation is a better measure of the underlying trend in prices.
 - C. Core inflation refers to producer prices.
93. Consumer price indexes are least likely to:
- A. compare current prices to prices in a base year.
 - B. reflect the typical purchasing patterns of consumers.
 - C. be calculated for stages of processing.

LOS 15.g: Compare inflation measures, including their uses and limitations

94. Six companies in an industry have the following market shares:

| Company | A | B | C | D | E | F |
|------------------|----|----|----|----|----|---|
| Market Share (%) | 30 | 25 | 16 | 12 | 10 | 7 |

- If Companies D and F merge into a new Company, G, the industry's three-company concentration ratio would be closest to:
- A. A 72%.
 - B. B 74%.
 - C. C 71%.
95. Which of the following statements about biases that affect the consumer price index (CPI) is least accurate?
- A. The basket of goods on which the CPI is based becomes a less accurate measure of household costs as new goods appear on the market.
 - B. Price increases that result from quality improvements are reflected as increases in the CPI.
 - C. The net effect of built-in biases in the CPI is to underestimate inflation.
96. A price index that is calculated using the current weights of the index's basket of goods and services is known as a:
- A. hedonic price index.
 - B. chained price index.
 - C. Laspeyres price index.

LOS 15.h: Distinguish between cost-push and demand-pull inflation

97. Inflation resulting from a decrease in taxes is most likely:
- A. demand-pull inflation.
 - B. stagflation.
 - C. cost-push inflation.
98. Which of the following statements is most accurate? Cost-push inflation:
- A. often occurs because of an increase in short-run aggregate supply.
 - B. results from excess short-run aggregate demand.
 - C. typically results from a significant price increase in a production input.
99. Which of the following factors would least likely result in demand-pull inflation? An increase in:
- A. the quantity of money.
 - B. exports.
 - C. energy prices.

LOS 15.i: Interpret a set of economic indicators and describe their uses and limitations

100. Average weekly initial claims for unemployment insurance are classified as a:
- A. lagging indicator.
 - B. coincident indicator.
 - C. leading indicator.
101. Manufacturing and trade sales are best described as a:
- A. coincident indicator.
 - B. lagging indicator.
 - C. leading indicator.



R15 UNDERSTANDING BUSINESS CYCLES
甄选题答案

R15 UNDERSTANDING BUSINESS CYCLES

LOS 15.a: Describe the business cycle and its phases

71.Answer:A

LOS 15.b: Describe how resource use, housing sector activity, and external trade sector activity vary as an economy moves through the business cycle.

72.Answer:B

衰退初期 or 复苏后期 ratio 会上升，但这里写了 initial cyclical

73.Answer:B

When the domestic economy is expanding, demand for imports is likely to increase as domestic incomes increase. Exports tend to be independent of domestic economic growth and are more closely related to trading partners' economic growth.

74.Answer:A

AD 还在增加，马上要 Inflationary Gap 了

75.Answer:C

复苏后期

76.Answer:C

inflation decelerates

77.Answer:C

记住这句话

LOS 15.c: Describe theories of the business cycle

78.Answer:B

79.Answer:C

80.Answer:C

由于 C 导致的 AD 上升下降

LOS 15.d: Describe types of unemployment and compare measures of unemployment.

81.Answer:C

labour force 会同时改变这两个 ratio

82.Answer:C

知识点回顾：三个 upward bias

Hedonic pricing - used to adjust a price index for product quality.

Chained or chain-weighted price index such as a Fisher index - to address the bias from substitution.

83.Answer:A

Structural unemployment exists when changes in the economy eliminate some jobs while generating new job openings for which unemployed workers are not qualified.

84.Answer:A

85.Answer:C

86.Answer:C

87.Answer:B

LOS 15.e: Explain inflation, hyperinflation, disinflation, and deflation

88.Answer:B

89.Answer:B

Lebow is incorrect because a one-time increase in the price level is not necessarily inflation. Inflation is an on-going process, not a one-time increase in the price level.

90.Answer:A

LOS 15.f: Explain the construction of indexes used to measure inflation

91.Answer:B

B is correct. The Paasche index uses the current composition of the basket.

$$\text{Paasche index} = \frac{180 \times 2.92 + 750 \times 3.12 + 250 \times 3.00}{180 \times 3.12 + 750 \times 2.18 + 250 \times 2.90} \times 100 = 123.75$$

A is incorrect. It is the Fisher index, the geometric mean of the Paasche and Laspeyres indexes.

$$\text{Fisher index} = (123.75 \times 125.43)^{0.5} = 124.59$$

C is incorrect. It is the Laspeyres index, which uses the base period composition of the basket.

$$\text{Laspeyres index} = \frac{150 \times 2.92 + 800 \times 3.12 + 250 \times 3.00}{150 \times 3.12 + 800 \times 2.18 + 250 \times 2.90} \times 100 = 125.43$$

92. Answer: A

回顾: Headline inflation refers to price indexes for all goods

93. Answer: C

PPI producer price index

LOS 15.g: Compare inflation measures, including their uses and limitations

94. Answer: B

95. Answer: C

inflation 的三个 bias 都是 upward bias

96. Answer: B

Fisher 就是 chained price index 知识点回顾:

Hedonic pricing - used to adjust a price index for product quality.

Chained or chain-weighted price index such as a Fisher index - to address the bias from substitution.

LOS 15.h: Distinguish between cost-push and demand-pull inflation

97. Answer: A

收入增加, AD 上升

98. Answer: C

cost 上升, SRAS 下降

99. Answer: C

能源价格上升, 生产成本上升, stagflation



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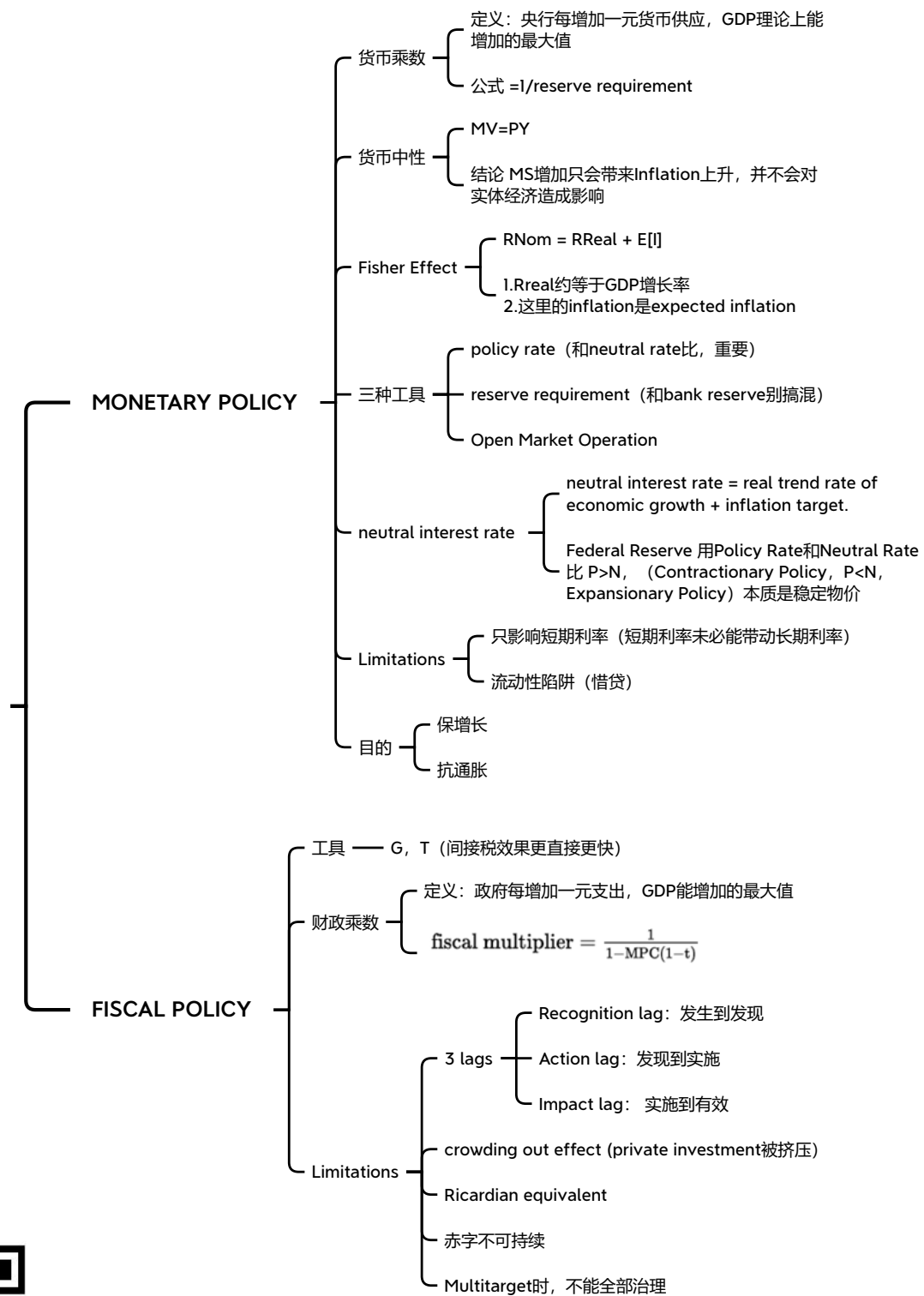
LOS 15.i: Interpret a set of economic indicators and describe their uses and limitations

100.Answer:C

101.Answer:A

Wincareer

R16 MONETARY AND FISCAL POLICY



R16 MONETARY AND FISCAL POLICY

LOS 16.a: Compare monetary and fiscal policy

102. A distinction between fiscal policy and monetary policy is that fiscal policy:
- A. concerns taxes and government spending, while monetary policy concerns the money supply.
 - B. is typically expansionary, while monetary policy is typically contractionary.
 - C. is aimed at promoting economic growth, while monetary policy is aimed at promoting price stability
103. Policies that can be used as tools for redistribution of wealth and income include:
- A. fiscal policy only.
 - B. monetary policy only.
 - C. both fiscal policy and monetary policy.

LOS 16.c: Explain the money creation process

104. On January 5, the U.S. Federal Reserve (the Fed) bought \$10,000,000 of U.S. Treasury securities in the open market. At the time, the reserve requirement was 25%, and all banks had zero excess reserves. What is the potential impact of the Fed's purchase on the U.S. money supply?
- A. \$10,000,000 increase.
 - B. \$40,000,000 increase.
 - C. \$25,000,000 decrease.

LOS 16.d: Describe theories of the demand for and supply of money

105. Which of the following statements regarding money demand and supply is least accurate?
- A. The supply of money is determined by the monetary authority and is not affected by changes in interest rates.
 - B. As the Fed reduces the money supply, short-term interest rates decrease.
increase
 - C. The supply curve for money is vertical.

106. The supply of money is primarily determined by:

- A. inflation.
- B. interest rates.
- C. the monetary authorities.

LOS 16.f

107. A country is experiencing a core inflation rate of 7% during a recessionary period of real GDP growth. If the central bank has a single mandate to achieve price stability and uses inflation targeting with an acceptable range of zero to 4%, its monetary policy response is most likely to decrease:

- A. GDP growth in the short run.
- B. short-term interest rates.
- C. the foreign exchange value of the country's currency.

LOS 16.g: Contrast the costs of expected and unexpected inflation

108. An individual has just purchased a home by taking on a 30-year fixed rate mortgage. She would benefit most from this transaction if future inflation rates are:

- A. lower than anticipated.
- B. higher than anticipated.
- C. exactly as anticipated.

LOS 16.h: Describe tools used to implement monetary policy

109. Assume the U.S. economy is undergoing a recession. In its efforts to stimulate the economy by trying to influence short-term interest rates the Fed is most likely to take which two actions?

- A. Sell Treasury securities and increase bank reserve requirements.
- B. Buy Treasury securities and decrease bank reserve requirements.
- C. Sell Treasury securities and decrease bank reserve requirements.

110. When the Federal Reserve sells government securities on the open market, bank reserves are:

- A. increased, which increases the amount of money banks are able to lend, causing a decrease in the federal funds rate.

- B. decreased, which reduces the amount of money banks are able to lend, causing a decrease in the federal funds rate.
- C. decreased, which reduces the amount of money banks are able to lend, causing an increase in the federal funds rate.

LOS 16.i: Describe the monetary transmission mechanism

111. If the U.S. Federal Reserve decides to decrease the money supply, which of the following is most likely to occur in the short run?
- A. An increase in the real rate of interest.
 - B. A decrease in the unemployment rate.
 - C. An increase in the velocity of money similar to decrease in the money supply.

LOS 16.j: Describe qualities of effective central banks

112. A central bank has operational independence if it can independently determine:
- A. how inflation is calculated.
 - B. the policy rate.
 - C. the horizon over which to achieve its inflation target.

LOS 16.k: Explain the relationships between monetary policy and economic growth, inflation, interest, and exchange rates

113. (AA) A developing country that maintains a fixed value for its currency relative to the US dollar is experiencing a decline in its economic activity, and its inflation rate falls below the level of inflation in the United States. The most likely result of the developing country's actions to maintain the fixed exchange rate target is that its:
- A. A foreign exchange reserves will decrease.
 - B. B short-term interest rates will fall.
 - C. C money supply will contract.
114. If a country's economy is growing at an unsustainably rapid rate and the central bank decreases its target overnight interest rate, the country's:
- A. long-term rate of economic growth will increase.
 - B. expected rate of inflation is likely to decline.
 - C. inflation rate is likely to increase.

LOS 16.l: Contrast the use of inflation, interest rate, and exchange rate targeting by central banks.

115. If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is most likely to be:

- A. less than that of the target currency.
- B. greater than that of the target currency.
- C. the same as that of the target currency.

LOS 16.m: Determine whether a monetary policy is expansionary or contractionary

116. To determine whether monetary policy is expansionary or contractionary, an analyst should compare the central bank's policy rate to the:

- A. neutral interest rate.
- B. trend rate of real growth.
- C. target inflation rate.

LOS 16.o: Describe roles and objectives of fiscal policy

117. The term "automatic stabilizers" refers to:

- A. changes in taxes and expenditure programs legislators automatically enact in response to changes the level of economic activity in order to smooth economic cycles.
- B. government expenditures and tax receipts that are required to balance over the course of the business cycle, although they may be out of balance in any single year.
- C. increases in transfer payments and decreases in tax revenues that result from an economic contraction without new legislation.

118. Discretionary fiscal policy refers to:

- A. active decisions regarding spending and taxing to affect economic growth.
- B. increasing aggregate demand through lower interest rates.
- C. built-in devices that counteract the business cycle phase.

LOS 16.n: Describe limitations of monetary policy

119. Which of the following statements regarding the monetary policy transmission

- mechanism is most accurate?
- A. Central banks can control short-term interest rates by increasing the money supply to increase interest rates or by decreasing the money supply to decrease interest rates.
 - B. Central banks can control short-term interest rates directly, but long-term interest rates are beyond their control.
 - C. Central banks can control long-term interest rates directly because decisions by consumers and businesses are based on these rates.

120. Which of the following conditions is difficult for monetary policy to address because a central bank cannot reduce its nominal policy rate much below zero?

- A. Deflation.
- B. Inflation.
- C. Stagflation.

LOS 16.p: Describe tools of fiscal policy, including their advantages and disadvantages

121. In a hypothetical economy, consumption is 70% of pre-tax income, and the average tax rate is 25% of total income. If planned government expenditures are expected to increase by \$1.25 billion, the increase in total income and spending in billions, is closest to:

- A. A \$2.6.
- B. B \$4.2.
- C. C \$1.3.

LOS 16.q: Describe the arguments about whether the size of a national debt relative to GDP matters

122. The crowding-out model implies that a:

- A. budget surplus will retard aggregate demand and trigger an economic downturn.
- B. budget deficit will stimulate aggregate demand and trigger a multiplier effect which will lead to inflation.
- C. budget deficit will increase the real interest rate and thereby retard private investment.

Answer:C

LOS 16.r: Explain the implementation of fiscal policy and difficulties of implementation

123. The country of Zurkistan is experiencing both high interest rates and high inflation. The government passes laws that reduce government spending and increase taxes. It takes many months before interest rates fall and inflation is reduced. This is an example of:
- A. action lag and automatic stabilizers.
 - B. impact lag in discretionary fiscal policy.
 - C. recognition lag in discretionary fiscal policy.

LOS 16.t: Explain the interaction of monetary and fiscal policy

124. Which one of the following Federal Reserve monetary policies, when pursued in line with the U.S. government's fiscal policies, would help increase aggregate demand during a period of high unemployment?
- A. The sale of bonds by the Fed.
 - B. An increase in the reserve requirements for financial institutions.
 - C. A decrease in the discount rate.
125. Which of the following fiscal and monetary policy scenarios is most likely to increase the size of public sector relative to the private sector ?
- A. Contractionary fiscal and monetary policy
 - B. Expansionary fiscal policy and contractionary monetary policy.
 - C. Expansionary monetary policy and contractionary fiscal policy.
126. Assuming the federal government maintains a balanced budget, the most likely effects of a tax increase on government expenditures and real GDP are:
- | Government Expenditures | Real GDP |
|-------------------------|----------|
| A. Decrease | Decrease |
| B. Increase | Increase |
| C. Increase | Decrease |

R16 MONETARY AND FISCAL POLICY

甄选题答案

R16 MONETARY AND FISCAL POLICY

LOS 16.a: Compare monetary and fiscal policy

102.Answer:A

Both fiscal and monetary policy can be used to promote economic growth and price stability. Either fiscal policy or monetary policy can be expansionary or contractionary.

103.Answer:A

LOS 16.c: Explain the money creation process

104.Answer:B

货币乘数

LOS 16.d: Describe theories of the demand for and supply of money

105.Answer:B

106.Answer:C

LOS 16.f

107.Answer:A

只要求减少 inflation，收缩政策

LOS 16.g: Contrast the costs of expected and unexpected inflation

108.Answer:B

inflation 上升 nominal rate 上升

LOS 16.h: Describe tools used to implement monetary policy

109.Answer:B

110.Answer:C

央行卖国债把市场上的货币收回来，相对应的商行用多余的钱（bank reserve）买证券，可以借出去的钱就少了

LOS 16.i: Describe the monetary transmission mechanism

111.Answer:A

收缩政策

LOS 16.j: Describe qualities of effective central banks

112.Answer:B

知识点回顾:

Independence can be evaluated based on both operational independence and target independence.

Operational independence - the central bank is allowed to independently determine the policy rate.

Target independence - central bank defines how inflation is computed, sets the target inflation level, and determines the horizon over which the target is to be achieved.

LOS 16.k: Explain the relationships between monetary policy and economic growth, inflation, interest, and exchange rates

113.Answer:B

inflation 比 target 低—》扩张政策

B is correct. With a decline in economic activity and domestic inflation, the currency of the developing country would start to rise against the dollar. To protect the exchange rate target, the developing country's monetary authority will purchase foreign exchange reserves and sell its own currency. This will increase the domestic money supply, decrease short-term interest rates, and increase foreign exchange reserves.

114.Answer:C

这时政府应该增加 target rate 放缓经济，减少 target rate 是刺激经济的政策，所以 AD 继续上升，inflation 继续上升

LOS 16.l: Contrast the use of inflation, interest rate, and exchange rate targeting by central banks.

115.Answer:C

货币局制度，固定汇率，财政政策一定和 target currency 一起走，不然会有 arbitrage

LOS 16.m: Determine whether a monetary policy is expansionary or contractionary

116.Answer:A

知识点回顾 policy rate 和 neutral rate 相比较（目的是为了稳定物价，虽然这题没问那么深）

LOS 16.o: Describe roles and objectives of fiscal policy

117.Answer:C

automatic stabilizer 看答案选项就可以了解其定义

118.Answer:A

Discretionary fiscal policy, in contrast to automatic stabilizers, refers to active decisions by the government to affect economic growth through changes in government spending and taxation. Increasing aggregate demand through lower interest rates describes expansionary monetary policy.

LOS 16.n: Describe limitations of monetary policy

119.Answer:B

课上说过哦

120.Answer:A

减小 IR 肯定是想刺激经济，而萧条时期是伴随着 deflation 的

LOS 16.p: Describe tools of fiscal policy, including their advantages and disadvantages

121.Answer:B

The fiscal multiplier is $\frac{1}{1-c(1-T)}$

Where

c = marginal propensity to consume = consumption/disposable income

T = the tax rate Assuming pre-tax income of \$100

Disposable income: $\$100 \times (1 - 0.25) = \75

Marginal propensity to consume: $\$70/\$75 = 0.933$

The fiscal multiplier: $1/[1-0.933(1-0.25)] = 3.33$

With government expenditure of \$1.25 billion, total incomes and spending will rise by $\$1.25 \text{ billion} \times 3.33 = \4.2 billion

A is incorrect. It calculates the MPC from pre-tax income (MPC = 0.70) but applies the formula correctly: $1/[1-c(1-T)]: 1/[1-0.70(1-0.25)] = 2.10$; resulting in an overall stimulus effect of $2.10 \times 1.25 = 2.60$

C is incorrect. It uses $G/\text{MPC}: 1.25/0.933 = 1.34$

LOS 16.q: Describe the arguments about whether the size of a national debt relative to GDP matters

122.Answer:C

LOS 16.r: Explain the implementation of fiscal policy and difficulties of implementation

123.Answer:B

LOS 16.t: Explain the interaction of monetary and fiscal policy

124.Answer:C

刺激经济, IR 减少, discount rate 同样减少

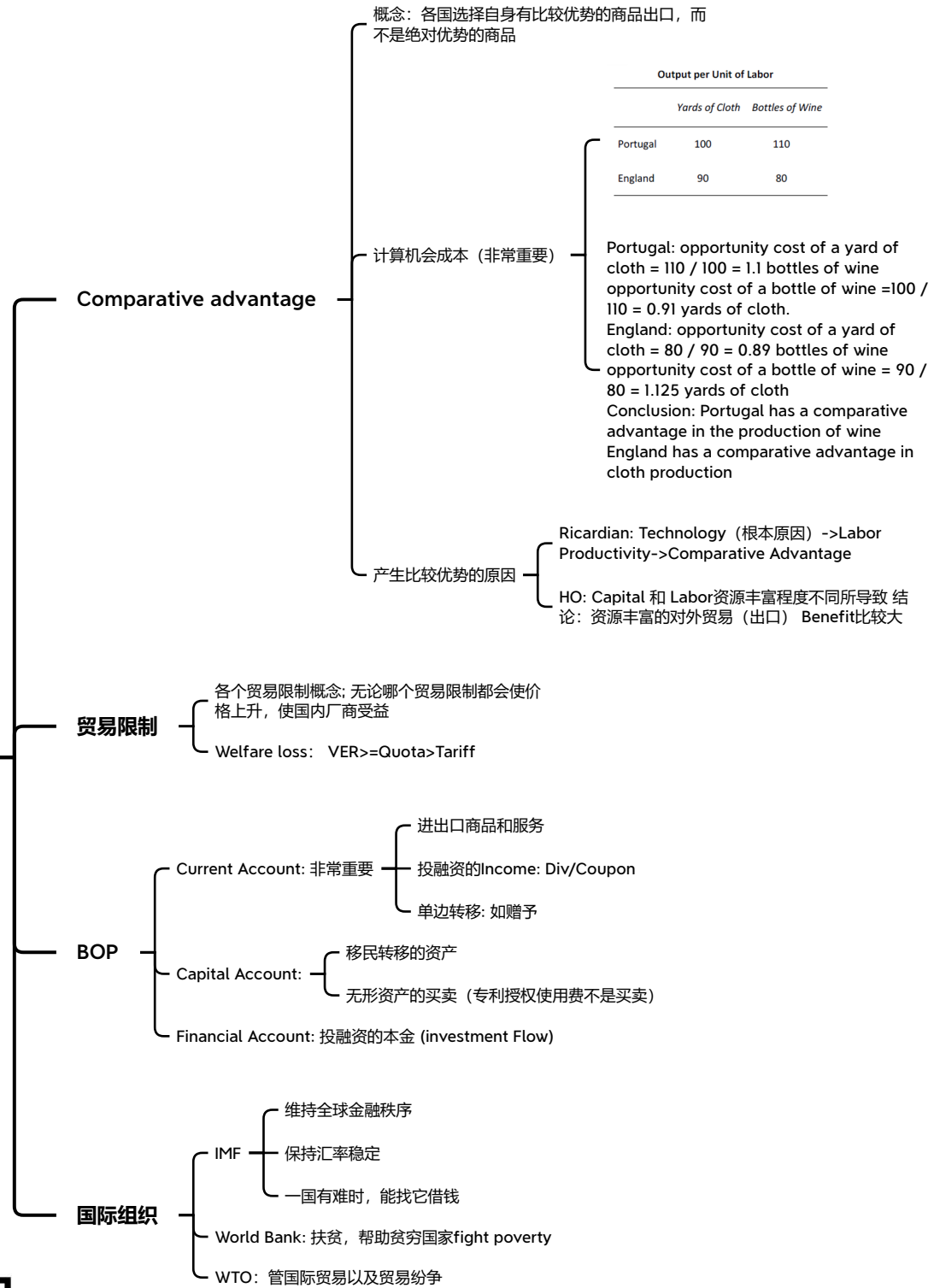
125.Answer:B

fiscal 对应 public sector, monetary 对应 private sector

126.Answer:B

首先它是 balanced budget 所以 Tax 上升 G 也会上升, 其次 G 上升会给 GDP 总量带来财政乘数的效应, 是一个倍数效应, 而 tax 增加确实会减少 Consumption, 但是 G 带来的 GDP 增加有个乘数, 所以 GDP 增加

R17 INTERNATIONAL TRADE AND CAPITAL FLOWS



R17 INTERNATIONAL TRADE AND CAPITAL FLOWS

LOS 17.b: Describe benefits and costs of international trade

LOS 17.c: Distinguish between comparative advantage and absolute advantage

127. Which of the following statements is most accurate? For a country to gain from trade, it must have:

- A. A economies of scale or lower labor costs.
- B. B an absolute advantage.
- C. C a comparative advantage.

128. A country has a comparative advantage over another when:

- A. a nation can produce more output with a given amount of input than another nation.
- B. it can produce a product with the fewest resources.
- C. a nation has the ability to produce a good with a lower opportunity cost than another nation.

129. The table below outlines the possible output per unit of labor input of producing beer and cheese for Germany and Holland.

| Germany | | Holland | |
|---------|------|---------|------|
| Cheese | Beer | Cheese | Beer |
| 5 | 10 | 4 | 6 |

Which of the following statements is most accurate?

- A. Germany would not gain from trade, because it has an absolute advantage in the production of both goods.
- B. Both countries would gain if Germany traded beer for Holland's cheese.
- C. Both countries would gain if Germany traded cheese for Holland's beer.

130. The following chart indicates the production possibilities of food and drink per day in Country A and Country B.

| | Units of Output Per Day | |
|-------|-------------------------|-----------|
| | Country A | Country B |
| Food | 4 | 8 |
| Drink | 6 | 7 |

- Which of the following statements about the chart is most accurate?
- A. Mutual gains could be realized from trade if A specialized in drink production and B specialized in the food production.
 - B. Mutual gains could be realized from trade if A specialized in food production and B specialized in drink production.
 - C. Since B workers can produce more of food and drink than A workers, no gains from trade are possible.

LOS 17.d: Compare the Ricardian and Heckscher–Ohlin models of trade and the source(s) of comparative advantage in each model

131. In the Ricardian model of trade, the source of comparative advantage is:
- A. capital productivity.
 - B. the difference between labor productivity and capital productivity.(HO 模型)
 - C. labor productivity.
132. The source of comparative advantage in the Heckscher-Ohlin model of trade is differences among countries in:
- A. technological advancement.
 - B. relative scarcity of labor and capital.
 - C. labor productivity.

LOS 17.e: Compare types of trade and capital restrictions and their economic implications

133. Who benefits the most from a quota?
- A. Foreign consumers.
 - B. Foreign producers.
 - C. Domestic producers.
134. Prior to the beginning of summer, the government of Japan places a 150 percent tariff on imported chain saws. Assume for this example that this tariff has a significant impact on the supply of chain saws. The government's action:

- A. will protect the jobs and high wages of Japanese chain saw industry workers.
- B. is more harmful than if the government had limited the amount of chain saws imported.
- C. benefits the Japanese government and domestic producers.

LOS 17.f:

135. (AA)Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is best described as a(n):

- A. customs union.
- B. economic union.
- C. monetary union.

136. The form of regional trading agreement (RTA) least likely to have the unintended negative effect of reducing a member country's low-cost imports from a non-member country is a:

- A. common market.
- B. customs union.
- C. free trade area.

137. In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:

- A. set of trade restrictions with non-members.
- B. set of economic policies.
- C. currency.

LOS 17.h: Describe the balance of payments accounts including their components

138. (AAA)A country having a current account deficit most likely will still be able to consume more output than it produces by:

- A. A adjusting interest rates to stimulate higher domestic savings
- B. B restricting foreign direct investment.

C. C increasing its net foreign liabilities.

139. Capital transfers and sales of non-financial assets are included in which of the balance of payments accounts?

- A. Capital account.
- B. Current account.
- C. Financial account.

140. In the balance of payments accounts, goods and financial assets that migrants bring to a country are included in the:

- A. financial account.
- B. current account.
- C. capital account.

141. (AA) In 20X5, Carthage's merchandise imports exceeded the value of its merchandise exports. In this case, Carthage would most likely have which of the following?

- A. Capital account surplus.
- B. Balance of trade surplus.
- C. Current account surplus.

LOS 17.i: Explain how decisions by consumers, firms, and governments affect the balance of payments

142. Holding other factors constant, a country can reduce its trade deficit by increasing its:

- A. domestic capital investment.
- B. government budget deficit.
- C. private saving.

LOS 17.j: Describe functions and objectives of the international organizations that facilitate trade, including the World Bank, the International Monetary Fund, and the World Trade Organization

143. The primary goals of the International Monetary Fund (IMF) include:

- A. promoting exchange rate stability.
- B. reducing global poverty.
- C. resolving trade-related disputes among nations.



**R17 INTERNATIONAL TRADE AND
CAPITAL FLOWS
甄选题答案**

R17 INTERNATIONAL TRADE AND CAPITAL FLOWS

LOS 17.b: Describe benefits and costs of international trade

LOS 17.c: Distinguish between comparative advantage and absolute advantage

127.Answer:C

C is correct. A comparative advantage arises if one entity can produce an item at a lower opportunity cost than another. An absolute advantage in producing a good (or service) arises if one entity can produce that good at a lower cost or use fewer resources in its production than its trading partner. Even if a country does not have an absolute advantage in producing any of its goods, it can still gain from trade by exporting the goods in which it has a comparative advantage. The country with the lower opportunity cost

(with the comparative advantage) should specialize and produce its low opportunity cost item, and the other country should produce the high opportunity cost item, trading the goods between each other to make both better off

128.Answer:C

lower opportunity cost 说的就是 comparative advantage

129.Answer:B

130.Answer:A

LOS 17.d: Compare the Ricardian and Heckscher–Ohlin models of trade and the source(s) of comparative advantage in each model

131.Answer:C

如果 A 是 technology 选哪个？

132.Answer:B

LOS 17.e: Compare types of trade and capital restrictions and their economic implications

133.Answer:C

134.Answer:C

政府征税，导致价格升高，国内厂商因为价格升高增加产量

LOS 17.f:

135.Answer:B

136.Answer:C

137.Answer:B

LOS 17.h: Describe the balance of payments accounts including their components

138.Answer:C

BOP 账户也像一个公司的财报， $\text{current account} + \text{capital account} + \text{financial account} = 0$

C is correct. A current account deficit must be offset by a capital account surplus. Only by borrowing money from foreigners can a country have a current account deficit and consume more output than it produces. An increase in net foreign liabilities is the result of borrowing from foreigners.

139.Answer:A

移民带来的财产和无形资产买卖

140.Answer:C

141.Answer:A

外贸这三个 account 和财报一样，都是一进一出都要做平，基本的等式是三个 account 加起来=0，知道这些就 OK 不用深究

If a country is running a current account deficit, it must have an inflow of foreign capital, creating a surplus in the capital account.

LOS 17.i: Explain how decisions by consumers, firms, and governments affect the balance of payments

142.Answer:C

还是那个公式 $(X-M) = (S-I) + (T-G)$



win_career

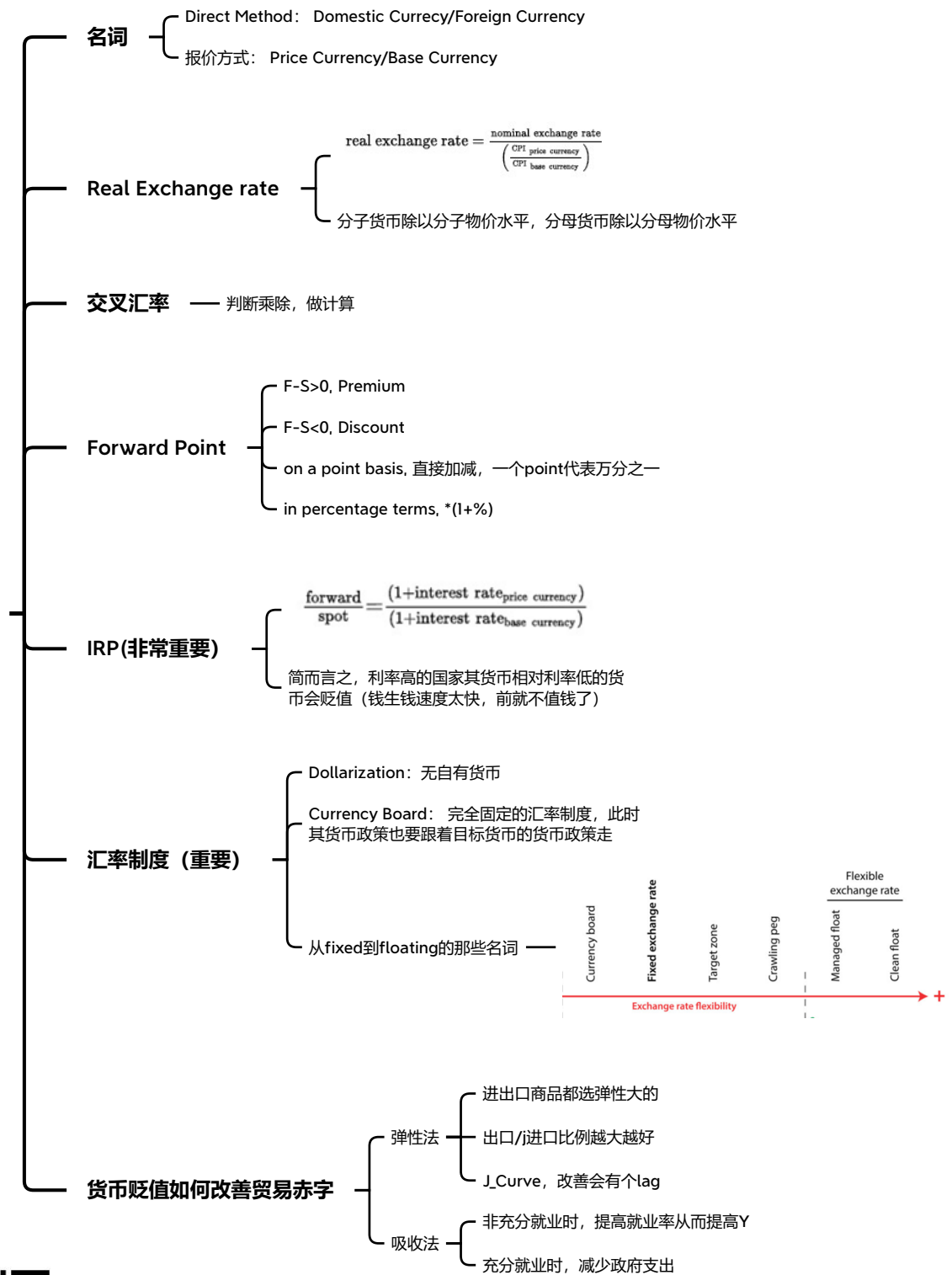
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LOS 17.j: Describe functions and objectives of the international organizations that facilitate trade, including the World Bank, the International Monetary Fund, and the World Trade Organization

143.Answer:A

R18 CURRENCY EXCHANGE RATES



R18 CURRENCY EXCHANGE RATES

LOS 18.a: Define an exchange rate and distinguish between nominal and real exchange rates and spot and forward exchange rates

144. (AA) Assume that the nominal spot exchange rate (USD/EUR) increases by 7.5%, the eurozone price level decreases by 4%, and the US price level increases by 2.5%.

The change in the real exchange rate (%) is closest to:

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

145. Other things equal, a real exchange rate (stated as units of domestic currency per unit of foreign currency) will decrease as a result of an increase in the:

- A. nominal exchange rate (domestic/foreign).
- B. foreign price level.
- C. domestic price level.

LOS 18.c: Calculate and interpret the percentage change in a currency relative to another currency

146. The exchange rate for Chinese yuan (CNY) per euro (EUR) changed from CNY/EUR 8.1588 to CNY/EUR 8.3378 over a 3-month period. It is most accurate to state that the:

- A. EUR has appreciated 2.15% relative to the CNY.
- B. CNY has depreciated 2.19% relative to the EUR.
- C. EUR has appreciated 2.19% relative to the CNY.

LOS 18.d: Calculate and interpret currency cross-rates

147. Given an exchange rate of USD/CAD 0.9250 and USD/CHF 1.6250, what is the cross rate for CAD/CHF?

- A. 1.5032.
- B. 1.7568.
- C. 0.5692.

148. A dealer report includes the following exchange rate details:

| | Spot Rate | Expected Change over Next Year |
|---------|-----------|--------------------------------|
| USD/EUR | 1.3 | 1.75% |
| CAD/USD | 0.95 | -0.25% |
| CHF/EUR | 1.22 | 0.75% |

The expected CAD/CHF cross rate in one year is closest to:

- A. 1.04
- B. 0.98
- C. 1.02

LOS 18.e: Convert forward quotations expressed on a points basis or in percentage terms into an outright forward quotation

149. The spot exchange rate is 1.1132 GBP/EUR and the 1-year forward rate is quoted as +1349 points. The 1-year forward exchange rate for GBP/EUR is closest to:

- A. 1.2634.
- B. 1.1267.
- C. 1.2481.

LOS 18.g: Calculate and interpret a forward discount or premium

150. The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are -75. The 6-month forward exchange rate is:

- A. 1.3575, and the USD is at a forward discount.
- B. 1.3425, and the USD is at a forward premium.
- C. 1.3425, and the USD is at a forward discount.

LOS 18.h

151. The spot exchange rate for United States dollars per United Kingdom pound (USD/GBP) is 1.5775. If 30-day interest rates are 1.5% in the United States and 2.5% in the United Kingdom, and interest rate parity holds, the 30-day forward USD/GBP exchange rate should be:

- A. 1.5762.

B. 1.5788.

C. 1.5621.

18.i

152. With respect to exchange rate regimes, crawling bands are most likely used in a transition toward:

- A. floating exchange rates.
- B. a fixed peg arrangement.
- C. a monetary union.

153. In which of the following exchange rate regimes can a country participate without giving up its own currency?

- A. Monetary union or currency board.
- B. Target zone or conventional fixed peg.
- C. Crawling peg or formal dollarization.

154. A country's central bank announces a monetary policy goal of a stable exchange rate with the euro, which it defines as deviations of no more than 3% from its current exchange rate of 2.5000. The country's exchange rate regime is best described as a:

- A. fixed peg.
- B. target zone.
- C. crawling band.

LOS 18.j: Explain the effects of exchange rates on countries' international trade and capital flows

155. (AA)Based on the elasticities approach, a country can implement an exchange rate policy to improve its trade balance most effectively if it imports and exports products:

- A. A that are consumer necessities.
- B. B with no good substitute.
- C. C traded in competitive markets.

R18 CURRENCY EXCHANGE RATES

甄选题答案

R18 CURRENCY EXCHANGE RATES

LOS 18.a: Define an exchange rate and distinguish between nominal and real exchange rates and spot and forward exchange rates

144. Answer: A

Real exchange rate = Nominal spot exchange rate \times (CPI of the foreign country / CPI of the domestic country)

Change in the real exchange rate = $[(1 + \text{Change in exchange rate}) \times (1 + \text{Change in price level in foreign country})] / (1 + \text{Change in price level in domestic country}) - 1$

$$= [(1 + 7.5\%) \times (1 - 4\%) / (1 + 2.5\%) - 1] = 0.7\%$$

145. Answer: C

(D/F)各自货币剔除各自物价水平

LOS 18.c: Calculate and interpret the percentage change in a currency relative to another currency

146. Answer: C

The percentage change in the CNY value of one EUR is $(8.3378 / 8.1588) - 1 = 0.0219$. The EUR has appreciated 2.19% relative to the CNY. This is not the same as CNY depreciating by 2.19% relative to the EUR. The percentage change in the CNY is $[(1 / 8.3378) / (1 / 8.1588)] - 1 = -0.0215 = -2.15\%$.

LOS 18.d: Calculate and interpret currency cross-rates

147. Answer: B

148. Answer: C

| | Spot Rate | Expected Appreciation | Expected Spot Rate in One Year |
|---------|-----------|---|--------------------------------|
| USD/EUR | 1.3 | 1.75% | 1.323 |
| CAD/USD | 0.95 | -0.25% | 0.948 |
| CHF/EUR | 1.22 | 0.75% | 1.229 |
| CAD/CHF | = | $(\text{USD/EUR}) \times [(\text{CAD/USD}) / (\text{CHF/EUR})]$ | =1.020 |

LOS 18.e: Convert forward quotations expressed on a points basis or in percentage terms into an outright forward quotation

149. Answer: C

LOS 18.g: Calculate and interpret a forward discount or premium

150. Answer: B

LOS 18.h

151. Answer: A

$$\begin{aligned} \text{Forward USD/GBP} &= \text{spot USD/GBP} \times (1 + \text{U.S. interest rate}) / (1 + \text{UK interest rate}) \\ &= 1.5775 \times [(1 + 0.015/12) / (1 + 0.025/12)] \\ &= 1.5762 \end{aligned}$$

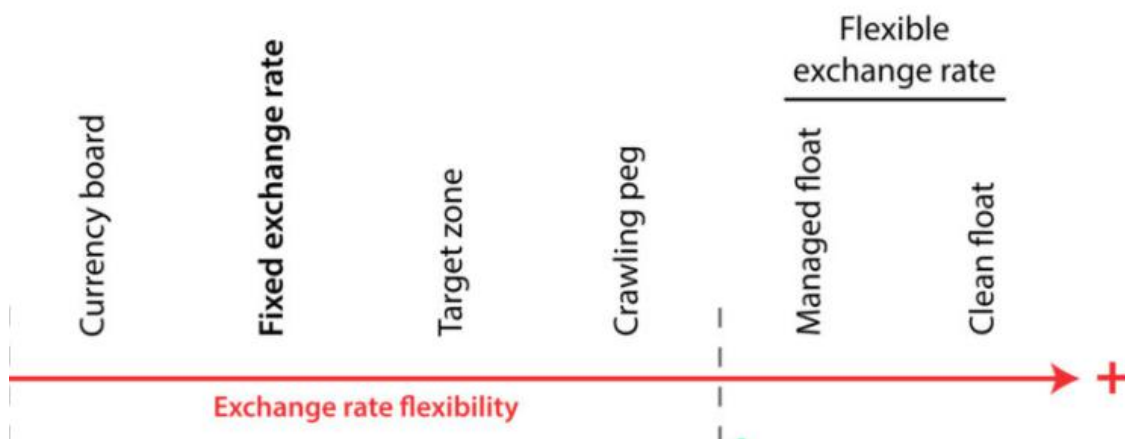
18.i

152. Answer: A

153. Answer: B

排除法

154. Answer: B



Currency board arrangement is - an explicit commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate.

Conventional fixed peg arrangement - a country pegs its currency within margins of $\pm 1\%$ versus another currency.

Pegged exchange rates within horizontal bands or a target zone - the permitted fluctuations in currency value relative to another currency or basket of currencies are wider (e.g., $\pm 2\%$).

Crawling peg - the exchange rate is adjusted periodically, typically to adjust for higher inflation versus the currency used in the peg.

Management of exchange rates within crawling bands - the width of the bands that identify permissible exchange rates is increased over time.

Managed floating exchange rates - the monetary authority attempts to influence the exchange rate in response to specific indicators, such as the balance of payments, inflation rates, or employment without any specific target exchange rate.

Independently floating - the exchange rate is market determined.

LOS 18.j: Explain the effects of exchange rates on countries' international trade and capital flows

155. Answer: C

again 找弹性大的

C is correct. In the elasticities approach, changes in exchange rate policy will be a more-effective mechanism for trade balance adjustment if a country imports and exports products that trade in competitive markets, with good substitutes, and luxury products rather than necessities.



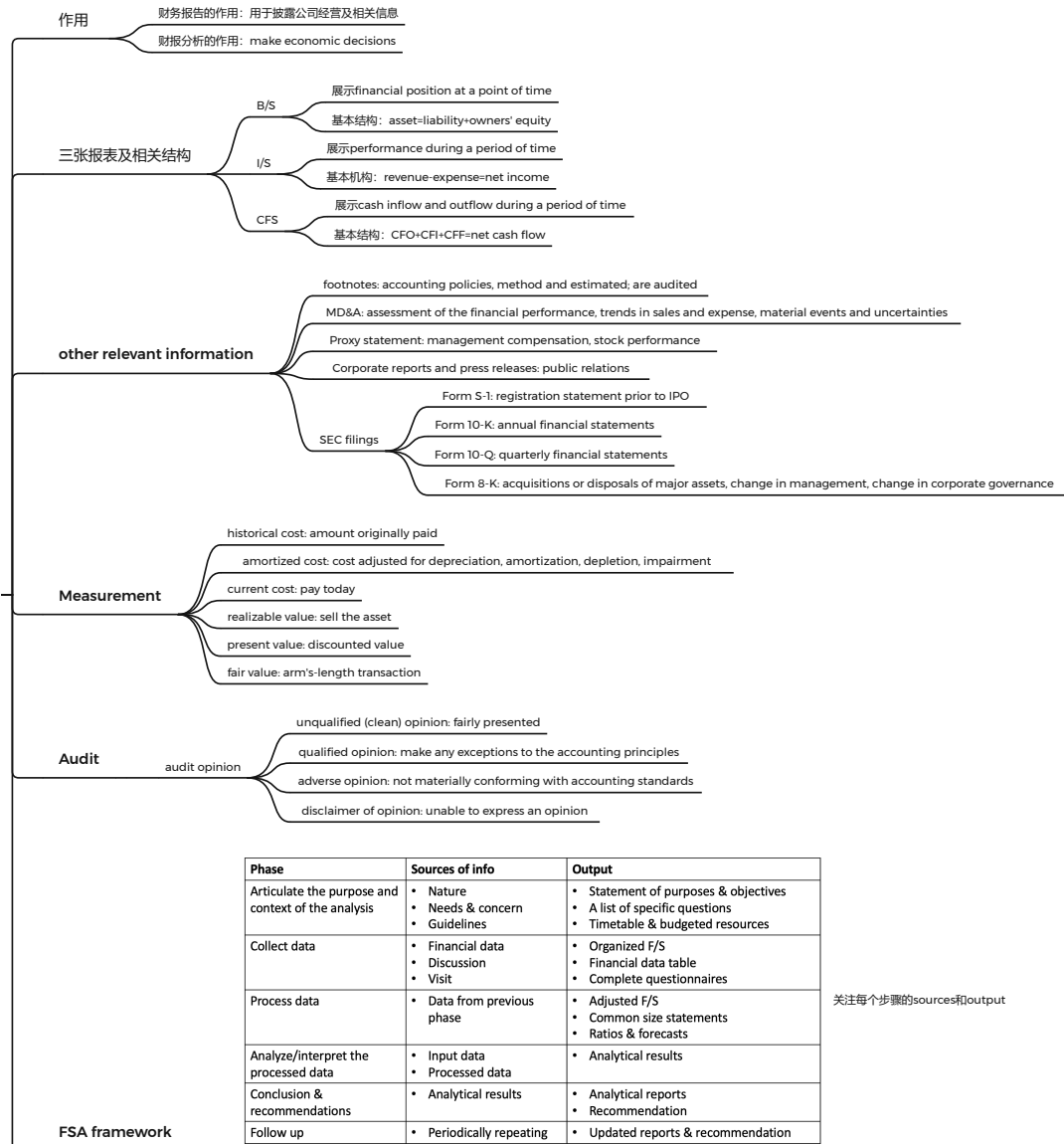
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Financial Reporting and Analysis

Financial reporting and analysis (L1)
R19 Introduction to FSA



R19 INTRODUCTION TO FINANCIAL STATEMENT

ANALYSIS

LOS 19.a: Describe the roles of financial reporting and financial statement analysis.

1. Which of the following best describes financial reporting and financial statement analysis?
 - A. The objective of financial analysis is to provide information about the financial position of an entity that is useful to a wide range of users.
 - B. Financial reports assess a company's past performance in order to draw conclusions about the company's ability to generate cash and profits in the future.
 - C. Financial reporting refers to how companies show their financial performance and financial analysis refers to using the information to make economic decisions.

LOS 19.b: Describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position.

LOS 19.c: Describe the importance of financial statement notes and supplementary information—including disclosures of accounting policies, methods, and estimates—and management's commentary.

2. Which of the following statements regarding footnotes to the financial statements is least accurate? Financial statement footnotes:
 - A. provide information about assumptions and estimates used by management.
 - B. may contain information regarding contingent losses.

- C. typically include a discussion of the firm's past performance and future outlook.

LOS 19.d: Describe the objective of audits of financial statements, the types of audit reports, and the importance of effective internal controls.

- 3. Which of the following is an independent auditor least likely to do with respect to a company's financial statements?
 - A. Confirm assets and liabilities contained in them.
 - B. Prepare and accept responsibility for them.
 - C. Provide an opinion concerning their fairness and reliability.
- 4. Which of the following would NOT require an explanatory paragraph added to the auditors' report?
 - A. Doubt regarding the "going concern" assumption.
 - B. Uncertainty due to litigation.
 - C. Statements that the financial information was prepared according to GAAP.

LOS 19.e: Identify and describe information sources that analysts use in financial statement analysis besides annual financial statements and supplementary information.


LOS 19.f: Describe the steps in the financial statement analysis framework.

- 5. The step in the financial statement analysis framework that includes making any appropriate adjustments to the financial statements and calculating ratios is best described as:
 - A. processing the data.
 - B. gathering the data.
 - C. analyzing and interpreting the data.



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**R19 INTRODUCTION TO FINANCIAL
STATEMENT ANALYSIS**

甄选题答案

R19 INTRODUCTION TO FINANCIAL STATEMENT

ANALYSIS

LOS 19.a: Describe the roles of financial reporting and financial statement analysis.

1.Answer: C

Financial reporting refers to the way companies show their financial performance to investors, creditors, and other interested parties by preparing and presenting financial statements.

The objective of financial statements, not analysis, is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. The role of financial statement analysis, not reporting, is to use the information in a company's financial statements, along with other relevant information, to assess a company's past performance in order to draw conclusions about the company's ability to generate cash and profits in the future.

LOS 19.b: Describe the roles of the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows in evaluating a company's performance and financial position.

LOS 19.c: Describe the importance of financial statement notes and supplementary information—including disclosures of accounting policies, methods, and estimates—and management's commentary.

2.Answer: C

Discussion of a firm's past performance and future outlook is most likely to be found in management's commentary.

LOS 19.d: Describe the objective of audits of financial statements, the types of audit reports, and the importance of effective internal controls.

3.Answer: B

Auditors make an independent review of financial statements, which are prepared by company management and are management's responsibility. It is the responsibility of auditors to confirm the assets, liabilities, and other items included in the statements and then issue an opinion concerning their fairness and reliability.

4.Answer: C

The statements that the financial information was prepared according to GAAP should be included in the regular part of the auditors' report and not as an explanatory paragraph. The other information would be contained in explanatory paragraphs added to the auditors' report.

LOS 19.e: Identify and describe information sources that analysts use in financial statement analysis besides annual financial statements and supplementary information.

LOS 19.f: Describe the steps in the financial statement analysis framework.

5.Answer: A

The financial statement analysis framework consists of six steps:


1. State the objective and context. Determine what questions the analysis is meant to answer, the form in which it needs to be presented, and what resources and how much time are available to perform the analysis.


2. Gather data. Acquire the company's financial statements and other relevant data on its industry and the economy. Ask questions of the company's management, suppliers, and customers, and visit company sites.

3. Process the data. Make any appropriate adjustments to the financial statements. Calculate ratios. Prepare exhibits such as graphs and common-size balance sheets.

4. Analyze and interpret the data. Use the data to answer the questions stated in the first step. Decide what conclusions or recommendations the information



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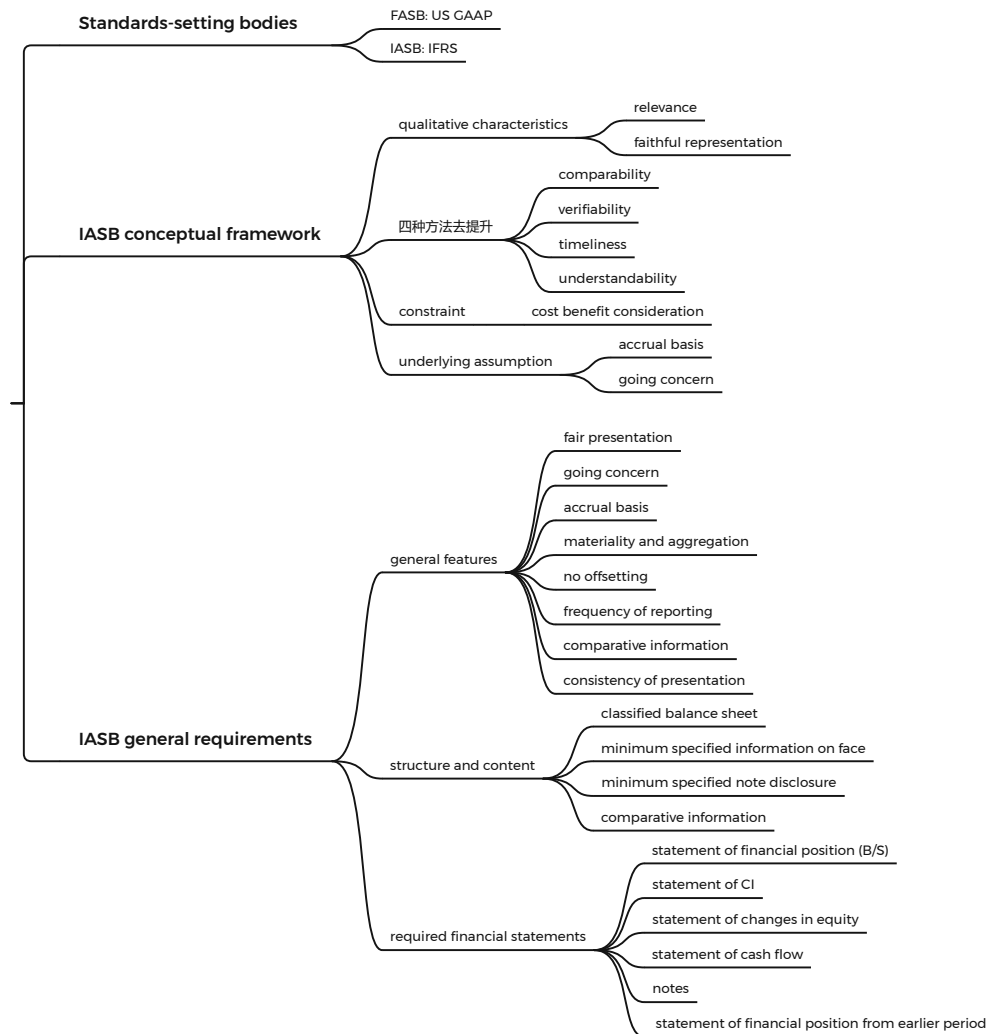
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supports.

5. Report the conclusions or recommendations. Prepare a report and communicate it to its intended audience. Be sure the report and its dissemination comply with the Code and Standards that relate to investment analysis and recommendations.

Update the analysis. Repeat these steps periodically and change the conclusions or recommendations when necessary.

**Financial reporting and analysis (L1)
 R20 Financial reporting standards**



R20 FINANCIAL REPORTING STANDARDS

LOS 20.a: Describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation.

LOS 20.b: Describe the roles of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards.

6. Professional organizations of accountants and auditors that establish financial reporting standards are called:
 - A. International organizations of securities commissions.
 - B. Regulatory authorities.
 - C. Standard setting bodies.

7. Which of the following is a company least likely required to present according to International Accounting Standard (IAS) No. 1?
 - A. Statement of changes in owners' equity.
 - B. A summary of accounting policies.
 - C. Disclosures of material events.

8. Required financial statements, according to International Accounting Standard (IAS) No. 1, include a(n):
 - A. cash flow statement and auditor's report.
 - B. balance sheet and explanatory notes.
 - C. income statement and working capital summary.

LOS 20.c: Describe the International Accounting Standards Board's conceptual framework, including qualitative characteristics of financial reports, constraints on financial reports, and required reporting elements.

9. According to the IASB conceptual framework, characteristics that enhance relevance and faithful representation include:
- A. comparability and thoroughness.
 - B. timeliness and verifiability.
 - C. assurance and understandability.
10. Which of the following is least likely a qualitative characteristic accounting information must possess in order to provide useful information to an analyst, according to the IASB Conceptual Framework?
- A. Relevance.
 - B. Conservatism.
 - C. Faithful representation.
11. A firm engages in a new type of financial transaction that has a material effect on its earnings. An analyst should most likely be suspicious of the new transaction if:
- A. the transaction is not governed by existing regulations.
 - B. management has not explained its business purpose.
 - C. no accounting standard exists that applies to the transaction.
12. Two underlying assumptions of financial statements, according to the IASB conceptual framework, are:
- A. going concern and accrual accounting.
 - B. historical cost and going concern.
 - C. accrual accounting and historical cost.

LOS 20.d: Describe general requirements for financial statements under International Financial Reporting Standards (IFRS).

13. Which of the following is least likely one of the general requirements for financial statements under IFRS?
- A. Statements should be prepared at least quarterly.
 - B. Statements should be prepared under a going concern assumption.



- C. No offsetting of income against expenses unless a standard permits or requires it.


(Study Session 6, Module 20.2, LOS 20.d)

LOS 20.e: Describe implications for financial analysis of alternative financial reporting systems and the importance of monitoring developments in financial reporting standards.



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**R20 FINANCIAL REPORTING STAND
ARDS**

甄选题答案

R20 FINANCIAL REPORTING STANDARDS

LOS 20.a: Describe the objective of financial reporting and the importance of financial reporting standards in security analysis and valuation.

LOS 20.b: Describe the roles of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards.

6.Answer: C

Standard-setting bodies are professional organizations of accountants and auditors that establish financial reporting standards. Regulatory authorities are government agencies that have the legal authority to enforce compliance with financial reporting standards. Regulatory authorities, such as the Securities and Exchange Commission (SEC) in the U.S. and the Financial Services Authority (FSA) in the United Kingdom, are established by national governments. Most national authorities belong to the International Organization of Securities Commissions (IOSCO).

7.Answer: C

International Accounting Standard (IAS) No. 1 defines which financial statements are required and how they must be presented. The required financial statements are:

- ♦ Balance sheet.
- ♦ Statement of comprehensive income. Cash flow statement.
- ♦ Statement of changes in equity.
- ♦ Explanatory notes, including a summary of accounting policies.

Disclosures of material events that affect the company are required by the Securities and Exchange Commission (Form 8-K) for firms that are publicly traded in the United States.

8.Answer: B

Financial statements that are required by IAS No. 1 include a balance sheet, a statement of comprehensive income, a cash flow statement, a statement of changes in owners' equity, and explanatory notes that include a summary of the company's

accounting policies. IAS No. 1 does not require an auditor's report or a working capital summary.

LOS 20.c: Describe the International Accounting Standards Board's conceptual framework, including qualitative characteristics of financial reports, constraints on financial reports, and required reporting elements.

9.Answer: B

The four characteristics that enhance relevance and faithful representation are comparability, verifiability, timeliness, and understandability.

10.Answer: B

Qualitative characteristics that accounting information must possess according to the IASB Conceptual Framework are relevance and faithful representation, which are enhanced by the characteristics of timeliness, verifiability, understandability, and comparability. Conservatism may be a desirable characteristic, but is not one of the qualitative characteristics specified in the IASB Conceptual Framework.

11.Answer: B

New types of transactions may emerge that are not covered by existing accounting standards or regulations. Analysts should obtain information from a firm's management about the economic substance of such transactions to ensure that they serve a business purpose and have not been created primarily to manipulate the firm's financial statements.

12.Answer: A

The two underlying assumptions of financial statements according to the conceptual framework are accrual accounting and the going concern assumption. Historical cost is one of several measurement bases that may be used for financial reporting.



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LOS 20.d: Describe general requirements for financial statements under International Financial Reporting Standards (IFRS).

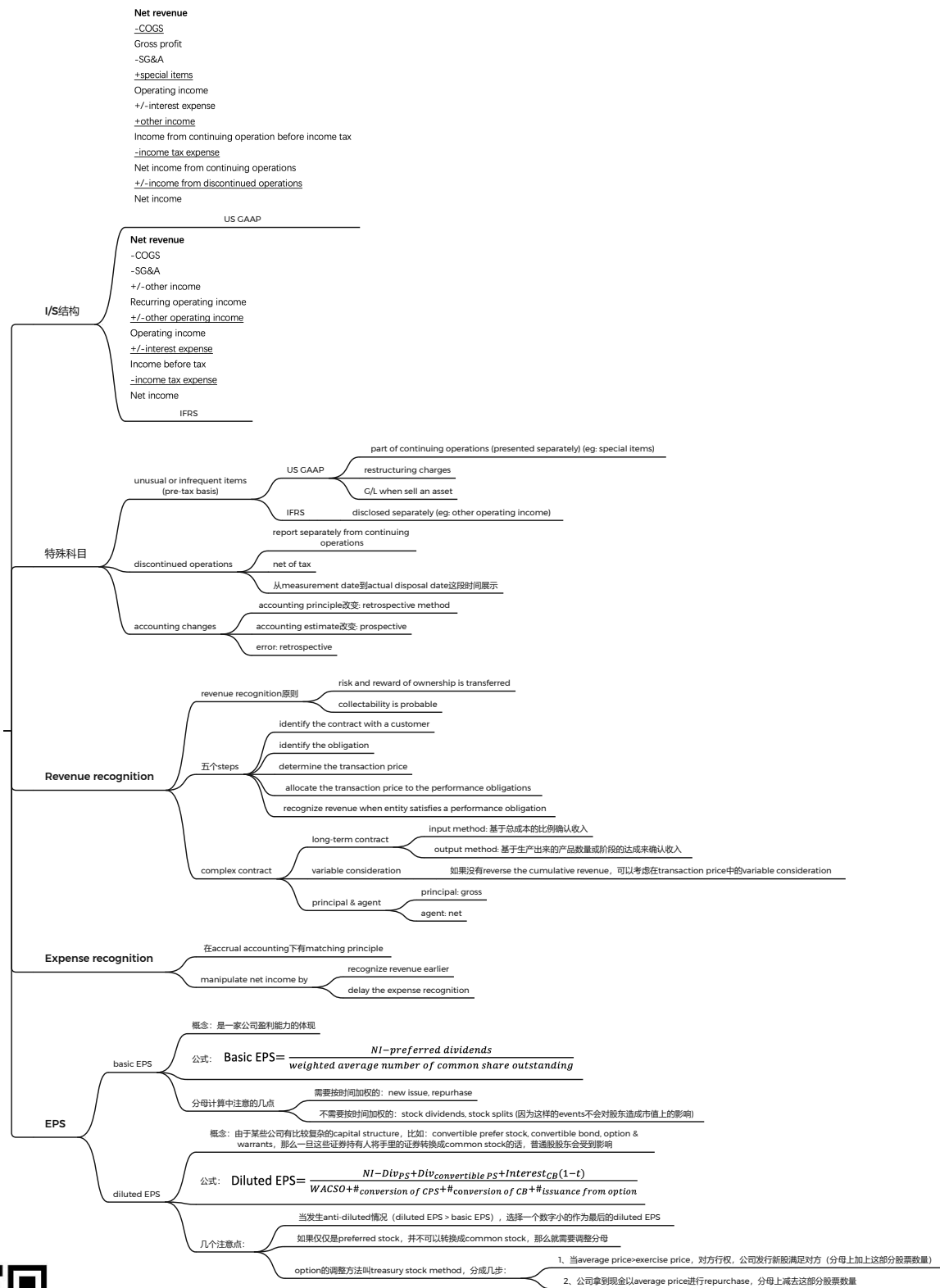
13.Answer: A

IFRS require reporting at least annually. The other two choices are requirements included in IAS No. 1.

(Study Session 6, Module 20.2, LOS 20.d)

LOS 20.e: Describe implications for financial analysis of alternative financial reporting systems and the importance of monitoring developments in financial reporting standards.

Financial reporting and analysis (L1)
R21 income statement



R21 UNDERSTANDING INCOME STATEMENTS

LOS 21.a: Describe the components of the income statement and alternative presentation formats of that statement.

14. Do gains and losses, as well as expenses appear on the income statement?
- A. Both appear on the income statement.
 - B. Only expenses appear on the income statement.
 - C. Only gains and losses appear on the income statement.
15. A company reports the following unusual events:
- 1. Loss on discontinued operations.
 - 2. Restructuring and severance costs applicable to asset sales.
 - 3. Plant shutdown costs.
 - 4. Which of these items would most likely be considered nonrecurring and included in operating income?
- A. Loss on discontinued operations and restructuring and severance costs applicable to asset sales.
 - B. Loss on discontinued operations and plant shutdown costs.
 - C. Restructuring and severance costs applicable to asset sales and plant shutdown costs.
16. Which of the following items for a financial services company is least likely to be considered an operating item on the income statement?
- A. Income tax expense.
 - B. Interest income.
 - C. Financing expenses.

LOS 21.b: Describe general principles of revenue recognition and accounting standards for revenue recognition.

17. Under accrual accounting, revenues are recognized in the same period in which the associated:
- A. cash is collected.
 - B. invoices are billed.
 - C. expenses are incurred.

LOS 21.c: Calculate revenue given information that might influence the choice of revenue recognition method.

18. According to the standards for revenue recognition, a promise to transfer a distinct good or service is most accurately described as a:
- A. performance obligation.
 - B. transaction.
 - C. contract.

LOS 21.d: Describe general principles of expense recognition, specific expense recognition applications, and implications of expense recognition choices for financial analysis.

LOS 21.e: Describe the financial reporting treatment and analysis of non-recurring items (including discontinued operations, unusual or infrequent items) and changes in accounting policies.

19. A company changes from an incorrect method of accounting to an acceptable one. Which of the following statements about this change is most accurate?
- A. It is an unusual or infrequent item and is reported in net income from continuing operations.
 - B. It requires restatement of any prior period results that are presented in the current financial statements.
 - C. It is a change in accounting principle and is reported below the line net of taxes.
20. Which of the following statements regarding making changes in accounting principles is least accurate?
- A. The general rule is retrospective application.

- B. Changes in accounting estimates are now treated the same as changes in accounting principles.
- C. A change in accounting principle is a change from one generally accepted accounting principle to another generally accepted principle. The firm making the change must justify the change.

LOS 21.f: Distinguish between the operating and non-operating components of the income statement.

LOS 21.g: Describe how earnings per share is calculated and calculate and interpret a company's earnings per share (both basic and diluted earnings per share) for both simple and complex capital structures.

21. An analyst gathered the following information about a company:
- 1. 01/01/06 - 20,000 shares issued and outstanding 04/01/06 - 5.0% stock dividend
 - 2. 07/01/06 - 5,000 shares repurchased 10/01/06 - 2:1 stock split
 - 3. What is the company's weighted average number of shares outstanding at the end of 2006?
- A. 39,500.
 - B. 47,000.
 - C. 37,000.

22. Advantage Corp.'s capital structure was as follows:

| Outstanding shares of stock: | December 31, 2005 | December 31, 2004 |
|------------------------------|-------------------|-------------------|
| Common | 110,000 | 110,000 |
| Convertible Preferred | 10,000 | 10,000 |
| % Convertible Bonds | \$1,000,000 | \$1,000,000 |

During 2005, Advantage paid dividends of \$3 per share on its preferred stock. The preferred shares are convertible into 20,000 shares of common stock. The 8% bonds are convertible into 30,000 shares of common stock. Net income for 2005 was \$850,000. Assume the income tax rate is 30%.

Calculate Advantage's basic and diluted earnings per share (EPS) for 2005.

Basic EPS Diluted EPS

- A. \$7.45 \$6.26
- B. \$7.45 \$5.66
- C. \$6.31 \$5.66

23. For a firm with a simple capital structure, all of the following are necessary to measure basic earnings per share (EPS) EXCEPT:

- A. the timing and number of shares issued or repurchased during the year.
- B. dividends paid to preferred shareholders.
- C. dividends paid to common shareholders.

24. At the beginning of this year Aristotle Co. had 400,000 shares of common stock outstanding. During the year, Aristotle paid a 10 percent stock dividend on May 31, issued 90,000 new common shares on June 30, and repurchased 12,000 shares on December 1. The number of shares Aristotle should use in computing earnings per share at the end of the year is:

- A. 475,000.
- B. 484,000.
- C. 476,000.

25. The following information pertains the QRK Company:

- ♦ 1. One million shares of common stock outstanding at the beginning of 2005.
- ♦ 200,000 shares issued on the last day of March.
- ♦ 2. 500,000 shares issued on the last day of June. 800,000 shares issued on the
- ♦ last day of September.

3. What is the number of shares that should be used to compute 2005 earnings per share for the QRK Company?

- A. 1.6 million.
- B. 2.5 million.
- C. 1.9 million.

26. When considering the impact of warrants on earnings per share, the method to calculate the number of shares added to the denominator is derived using which method?
- A. Weighted average method.
 - B. Cost recovery method.
 - C. Treasury Stock method.
27. When calculating earnings per share (EPS) for firms with complex capital structures, stock options are ordinarily considered to be:
- A. potentially dilutive securities.
 - B. antidilutive securities.
 - C. derivative securities.
28. An analyst has gathered the following information about Artcraft, Inc. for the year:
- 1. Net income of \$30,000.
 - 2. 5,000 shares of common stock and 500 shares of 8%, \$90 par convertible preferred stock outstanding during the whole year.
 - 3. Each share of convertible preferred can be converted into 4 shares of common stock.
 - 4. Last year, Artcraft issued at par, \$60,000 total face value of 6.0% convertible bonds, with each of the 60 bonds convertible into 110 shares of the Artcraft common stock.
 - 5. If Artcraft's effective tax rate is 40%, what will Artcraft report as diluted earnings per share (EPS)?
- A. \$3.37.
 - B. \$3.12.
 - C. \$2.36.
29. Ajax Company has a simple capital structure. Which of the following will NOT be found on its balance sheet?
- A. 6%, \$50 par value callable bond.

- B. 10%, secured mortgage bond denominated in Swiss francs.
C. 3%, \$100 par value convertible bond.
30. A complex capital structure would typically contain:
- A. convertible bonds.
B. variable rate notes.
C. bank notes.
31. Zachary Company's warrants issued in 2000 are Zachary's only outstanding potentially dilutive security. In 2005, EPS and Dilutive EPS differed for the first time. A possible explanation for the change is the:
- A. year-end market price of Zachary increased.
B. average market price of Zachary decreased.
C. average market price of Zachary increased.
32. The following data pertains to the Sapphire Company:
- 1. Net income equals \$15,000.
 - 2. 5,000 shares of common stock issued on January 1st. 10% stock dividend issued on June 1st.
 - 3. 1,000 shares of common stock were repurchased on July 1st.
 - 4. 1,000 shares of 10%, \$100 par preferred stock each convertible into 8 shares of common were outstanding the whole year.
5. What is the company's diluted earnings per share (EPS)?
- A. \$1.00.
B. \$1.15.
C. \$2.50.

LOS 21.h: Distinguish between dilutive and antidilutive securities and describe the implications of each for the earnings per share calculation.

33. Lawson, Inc.'s net income for the year was \$1,060,000 with 420,000 shares of common stock outstanding. Lawson has 2,000 shares of 8%, \$1,000 par value convertible preferred stock that were outstanding the entire year. Each share of

preferred is convertible into 50 shares of common stock. Lawson's diluted earnings per share are closest to:

- A. \$1.94.
- B. \$2.14.
- C. \$2.04.

34. Kendall Company's net income for 20X4 is \$830,000 with 200,000 shares outstanding. Kendall has 1,000 6% convertible bonds (each bond \$1,000 face value and convertible into 20 common shares) outstanding for the entire year. Kendall's tax rate is 40%. What is Kendall Company's diluted earnings per share for 20X4?

- A. \$3.77.
- B. \$3.94.
- C. \$4.15.

LOS 21.i: Convert income statements to common-size income statements.

35. Which of the following data are least likely to be read directly from a common-size income statement?

- A. Net profit margin.
- B. Ratio of SG&A expense to sales.
- C. Effective tax rate.

36. An analyst prepares the following common-size income statements for Perez Company:

| | 20X1 | 20X2 | 20X3 |
|------------------------------------|------|------|------|
| Sales | 100% | 100% | 100% |
| Cost of goods sold | 50% | 52% | 53% |
| Selling and administrative expense | 16% | 12% | 9% |
| Interest income | 4% | 4% | 4% |
| Pretax income | 30% | 32% | 34% |
| Income tax expense | 15% | 16% | 17% |
| Net income | 15% | 16% | 17% |

Based only on this information, Perez's improving net profit margin is most likely a result of:

- A. improving gross margins.
- B. controlling operating expenses.
- C. greater financial leverage.

37. Where in the financial statements should a firm recognize the unrealized gains and losses on cash flow hedging derivatives and the unrealized gains and losses on available-for-sale securities?

Cash flow hedging derivatives available-for-sale securities

- A. Other comprehensive income
- B. Other comprehensive income
- C. Net income Other comprehensive income

LOS 21.j: Evaluate a company's financial performance using common-size income statements and financial ratios based on the income statement.

38. Selected financial ratios from Mulroy Company's common-size income statements are as follows:

| | 20X1 | 20X2 | 20X3 |
|-------------------------|------|------|------|
| Gross profit margin | 22% | 24% | 26% |
| Operating profit margin | 18% | 20% | 22% |
| Pretax margin | 15% | 14% | 13% |

Relative to sales, it is most likely that Mulroy's:

- A. income tax expense is increasing.
- B. operating expenses are increasing.
- C. nonoperating expenses are increasing.

LOS 21.k: Describe, calculate, and interpret comprehensive income.



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LOS 21.I: Describe other comprehensive income and identify major types of items included in it.

39. Are dividends paid to common shareholders and foreign currency translation gains and losses included in a firm's other comprehensive income?

Foreign currency translation gains and losses

Dividends paid

- A. Yes Yes
- B. No No
- C. No Yes

40. Is an acquisition of treasury stock or a loss from the write-down of inventory under the lower-of-cost-or-market rule included in comprehensive income?


Inventory write-down Acquisition of treasury


Stock

- A. No No
- B. No Yes
- C. Yes No



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R21 UNDERSTANDING INCOME STATEMENTS

甄选题答案

R21 UNDERSTANDING INCOME STATEMENTS

LOS 21.a: Describe the components of the income statement and alternative presentation formats of that statement.

14.Answer: A

Gains and losses result from, transactions that are not a part of the firm's normal business operations. Expenses are amounts that are incurred to generate revenue; thus, expenses result from the firm's ongoing operations. Both are included on the income statement.

15.Answer: C

Restructuring and plant shutdown costs are considered part of a company's normal operations. Gains and losses related to discontinued operations are reported separately in the income statement because these activities are no longer included as part of the company's continuing operations.

16.Answer: A

For a financial services company, interest income, interest expense, and financing expenses are likely considered operating activities. For both financial and nonfinancial companies, income tax expense is a non-operating item that is reported within "income from continuing operations" as opposed to "operating profit" as with the other answer choices. Therefore, of the three choices, income tax expense is least likely to be considered an operating item.

LOS 21.b: Describe general principles of revenue recognition and accounting standards for revenue recognition.

17.Answer: C

Accrual accounting is based on the matching principle, under which revenues



are recognized in the same period that the expenses are incurred to generate those revenues.

LOS 21.c: Calculate revenue given information that might influence the choice of revenue recognition method.

18.Answer: A

Performance obligations within a contract are defined as promises to transfer distinct goods or services.

LOS 21.d: Describe general principles of expense recognition, specific expense recognition applications, and implications of expense recognition choices for financial analysis.

LOS 21.e: Describe the financial reporting treatment and analysis of non-recurring items (including discontinued operations, unusual or infrequent items) and changes in accounting policies.

19.Answer: B

This is the correct treatment of this change. The company must disclose the nature of the error and its effect on net income and restate any prior period results that are presented in the current financial statements.

20.Answer: B

Changes in accounting estimates are not treated the same as changes in principles. Changes in principles are treated retrospectively, whereas changes in accounting estimates are accounted for in the current and future periods. Both remaining statements are accurate.

LOS 21.f: Distinguish between the operating and non-operating components of the income statement.

LOS 21.g: Describe how earnings per share is calculated and calculate and interpret a company's earnings per share (both basic and diluted earnings per share) for both simple and complex capital structures.

21.Answer: C

The end-of-period weighted average number of common shares outstanding is the number of shares outstanding during the year weighted by the portion of the year they were outstanding. Dividends and splits are applied to all shares issued or repurchased and all original or adjusted shares outstanding prior to the split or dividend.

Step 1) Apply the 04/01/06 dividend to the beginning of year shares:

$$\text{Adjusted shares} = 1.05 \times 20,000 = 21,000$$

Step 2) Apply the 10/01/06 split to the adjusted beginning-of-year shares and the repurchase.

$$\text{Adjusted beginning-of-year shares} = 42,000 (= 2 \times 21,000)$$

$$\text{Adjusted repurchase} = 10,000 (= 2 \times 5,000)$$

Step 3) Compute the weighted average number of shares.

$$42,000(12/12) - 10,000(6/12) = 37,000 \text{ shares}$$

22. Answer: B

$$\text{Basic EPS} = \frac{\text{net income} - \text{pref div}}{\text{wt. ave. shares of common}} = \frac{[850,000 - (3 \times 10,000)]}{110,000} = \$7.45$$

Diluted EPS = [(net income – preferred dividends) + convertible preferred dividends + (convertible debt interest)(1 – t)] / [(weighted average shares) + (shares from conversion of conv. pfd shares) + (shares from conversion of conv. debt) + (shares issuable from stock options)]

$$\frac{[(850,000 - (3 \times 10,000)) + 30,000 + (80,000)(1 - 0.3)]}{[(110,000) + (20,000) + (30,000)]} = \$5.66.$$

23. Answer: C

Basic EPS = earnings available to common shareholders divided by the weighted average number of common shares outstanding. Earnings available to common shareholders equals net income minus preferred dividends.

24. Answer: B

$$[400,000 \text{ shares} \times 12 \text{ months} + 40,000 \times 12 \text{ months} + 90,000 \times 6 \text{ months} - (12,000 \times 1 \text{ months})] \text{ divided by } 12 = 484,000 \text{ shares.}$$

25.Answer: A

The weighted average number of common shares outstanding is the number of shares outstanding during the year weighted by the portion of the year they were outstanding. For the QRK Company, the weighted number of shares outstanding is the original one million shares plus 150,000 shares for the end-of-March issue ($= 200,000 \times 9/12$), plus 250,000 shares for the end-of-June issue ($= 500,000 \times 6/12$), plus 200,000 shares for the end-of-September issue ($= 800,000 \times 3/12$), or 1.6 million shares.

26.Answer: C

The treasury stock method assumes the hypothetical funds received by the company from the exercise of the options are used to purchase shares of the company's common stock in the market at the average market price.

27.Answer: A

Dilutive securities are securities that decrease EPS if they are exercised or converted to common stock. When the exercise price is less than the average market price, stock options are considered to be dilutive, Stock options, warrants, convertible debt, and convertible preferred stock are examples of potentially dilutive securities.

28.Answer: C

Diluted EPS = adjusted earnings after conversion (EAC) / weighted average plus potential common shares outstanding.

Step 1: Calculate Adjusted EAC

| | | |
|------------------|---|--|
| adjusted EAC: | | net income - preferred dividends |
| | + | dividends on convertible preferred stock |

| | | |
|--|---|---|
| | + | after-tax interest on convertible debt |
| | = | adjusted earnings available for common shares |

preferred dividends = convertible preferred dividends = $(0.08)(90)(500) = 3,600$
 convertible debt

$$\text{interest} = (60,000)(0.06)(1 - 0.40) = 2,160$$

$$\text{adjusted EAC} = (30,000 - 3,600 + 3,600 + 2,160) = \$32,160$$

Step 2: Calculate Weighted average plus potential common shares outstanding.

| | | | | |
|---|---|-------------------|--|--------|
| weighted average common shares | | | | 5,000 |
| shares from conversion of convertible preferred stock | = | (500×4) | | 2,000 |
| shares from conversion of convertible bonds | = | (60×110) | | 6,600 |
| weighted ave. plus potential common shares outst. | | | | 13,600 |

Step 3: Calculate Diluted EPS

$$\text{Diluted EPS} = 32,160 / 13,600 = \$2.36.$$

29. Answer: C

If convertible bonds exist, the firm has a complex capital structure.

30. Answer: A

A complex capital structure is one that contains securities that have the potential to dilute a firm's earnings per share. For example, convertible bonds,



convertible preferred stock, options, and warrants have the potential to dilute earnings per share upon conversion or exercise.

31.Answer: C

An increase in average market price could cause Zachary's warrants to go from antidilutive to dilutive. If the average price of the stock increases during the year, the warrants are likely to be exercised at some point during the year. Neither of the other choices would do this.

32.Answer: A

Number of average common shares:

$1/1 \ 5,500 \text{ shares issued (includes 10\% stock dividend on 6/1)} \times 12 = 66,000$
 $7/1 \ 1,000 \text{ shares repurchased} \times 6 \text{ months} = -6,000$
 $= 60,000$

$60,000 \text{ shares} / 12 \text{ months} = 5,000 \text{ average shares}$
Preferred dividends = $(\$10)(1,000)$
 $= \$10,000$

Number of shares from the conversion of the preferred shares = $(1,000 \text{ preferred shares})(8 \times 1.1 \text{ shares of common/share of preferred}) = 8,800 \text{ common}$

Diluted EPS = $[\$15,000(\text{NI}) - \$10,000(\text{pfd}) + \$10,000(\text{pfd})] / (5,000 \text{ common shares} + 8,800 \text{ shares from the conv. pfd.}) = \$15,000 / 13,800 \text{ shares} = \$1.09/\text{share}$

This number needs to be compared to basic EPS to see if the preferred shares are antidilutive.

Basic EPS = $[\$15,000(\text{NI}) - \$10,000(\text{preferred dividends})] / 5,000 \text{ shares} = \$5,000 / 5,000 \text{ shares} = \$1/\text{share}$

Since the EPS after the conversion of the preferred shares is greater than before the conversion the preferred shares are antidilutive and they should not be treated as common in computing diluted EPS. Therefore diluted EPS is the same as basic EPS or \$1/share.

LOS 21.h: Distinguish between dilutive and antidilutive securities and describe the implications of each for the earnings per share calculation.

33.Answer: C

Lawson's basic EPS ((net income – preferred dividends) / weighted average common shares outstanding) is $(\$1,060,000 - (2,000 \times \$1,000 \times 0.08)) / 420,000 = \2.14 . To calculate diluted EPS the convertible preferred shares are presumed to have been converted, the preferred dividends paid are added back to the numerator of the EPS equation, and the additional common shares are added to the denominator of the equation. Lawson's diluted EPS is $\$1,060,000 / (420,000 + 100,000) = \2.04 .

34.Answer: B

Kendall's basic EPS is $\$830,000 / 200,000 = \4.15 . To compute diluted EPS, bond interest paid net of taxes is added to net income, and the number of shares that would be issued in the conversion is added to the denominator. Kendall's diluted EPS = $[\$830,000 + (1,000 \times \$1,000 \times 0.06) \times (1 - 0.4)] / (200,000 + 20,000) = \3.94 . Since diluted EPS is less than basic EPS, we know that the bonds are dilutive and should be considered in calculating diluted EPS.

LOS 21.i: Convert income statements to common-size income statements.

35.Answer: C

The effective tax rate is income tax expense as a percentage of pretax income. Items on a common-size income statement are stated as a percentage of revenue (sales). Net profit margin is net income as a percentage of revenue.

36.Answer: B

The improvement in net profit margin from 15% to 17% appears to result mainly from the firm reducing selling and administrative expense from 16% of sales to 9% of sales, thus decreasing operating expenses from 66% to 62% of sales. Gross margin is decreasing over this period because cost of goods sold is increasing as a percentage of sales. While financial leverage cannot be determined directly from the income statement, the fact that interest expense is a constant percentage of sales suggests financial leverage is stable.

37.Answer: B

Unrealized gains and losses from cash flow hedging derivatives and unrealized gains and losses from available-for-sale securities are not recognized in the income statement; rather, they are both recognized as a component of stockholders' equity as a part of other comprehensive income.

LOS 21.j: Evaluate a company's financial performance using common-size income statements and financial ratios based on the income statement.

38.Answer: C

Nonoperating expenses are equal to the difference between operating profit and pretax profit. Based on the given profit margins, Mulroy's nonoperating expenses increased from 3% of sales in 20X1 to 9% of sales in 20X3. Because gross profit margin is increasing, cost of goods sold is decreasing as a percentage of sales. Other operating expenses and income tax expense, as a percentage of sales, were stable over the period shown.

LOS 21.k: Describe, calculate, and interpret comprehensive income.

LOS 21.l: Describe other comprehensive income and identify major types of items included in it.

39.Answer: C

Other comprehensive income includes non-owner transactions that affect shareholders' equity and are not recognized in net income. Dividends paid are transactions with the owners of the firm, so dividends paid are not included in other comprehensive income. Foreign currency translation gains and losses are non-owner transactions that are not recognized in net income. Thus, foreign currency translation gains and losses are included in other comprehensive income.


40.Answer: C


Comprehensive income includes all transactions that affect shareholders' equity except transactions with shareholders. Thus, any transaction that affects net income would also affect comprehensive income.

Since the inventory write-down is included in net income, it is part of



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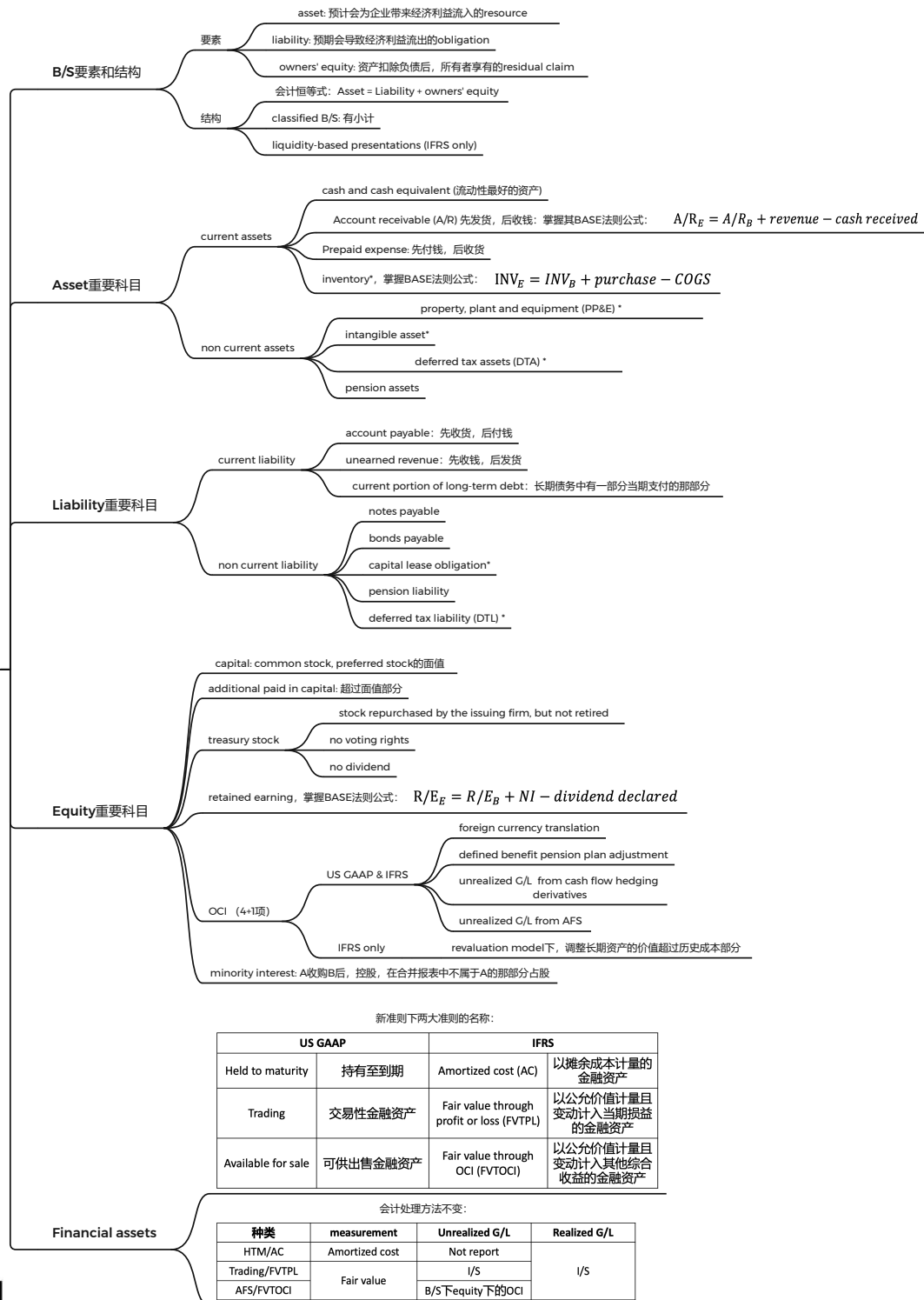
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comprehensive income. The acquisition of treasury stock is a transaction with shareholders; thus, it is not a part of comprehensive income.

Financial reporting and analysis (L1)
R22 balance sheet

打*的说明：后续有单独章节进行详细介绍



R22 UNDERSTANDING BALANCE SHEETS

LOS 22.a: Describe the elements of the balance sheet: assets, liabilities, and equity.

LOS 22.b: Describe uses and limitations of the balance sheet in financial analysis.

41. Duster Company reported the following financial information at the end of 2007:

in millions

| | |
|--------------------------------------|-------|
| Unearned revenue | \$240 |
| Common stock at par | 30 |
| Capital in excess of par | 440 |
| Accounts payable | 1,150 |
| Treasury stock | 2,000 |
| Retained earnings | 5,160 |
| Accrued expenses | 830 |
| Accumulated other comprehensive loss | 210 |
| Long-term debt | 1,570 |

Calculate Duster's liabilities and stockholders' equity as of December 31, 2007.

| Liabilities | Stockholders' equity |
|--------------------|----------------------|
| A. \$3,790 Million | \$7,420 million |
| B. \$3,550 Million | \$7,840 million |
| C. \$3,790 Million | \$3,420 Million |

42. A key limitation of balance sheets in financial analysis is that:

- A. liquidity and solvency ratios require information from other financial statements.
- B. some items are recognized when they are unlikely to reflect a flow of economic benefits.
- C. different balance sheet items may be measured differently.

LOS 22.c: Describe alternative formats of balance sheet presentation.

43. Which of the following statements about a classified balance sheet is least likely accurate? A classified balance sheet:
- A. distinguishes between current and noncurrent assets.
 - B. groups accounts by subcategories.
 - C. presents the net equity of each asset by subtracting its related liability.
44. Which of the following firms is most likely to present a liquidity-based balance sheet rather than a classified balance sheet?
- A. Banking institution.
 - B. Chain of retail stores.
 - C. Manufacturing firm.
45. A liquidity-based balance sheet, on which assets and liabilities are not classified as current or non-current, is permitted under:
- A. Both IFRS and U.S. GAAP.
 - B. U.S. GAAP only.
 - C. IFRS only.

LOS 22.d: Distinguish between current and non-current assets and current and non-current liabilities.

46. One of a firm's assets is 270-day commercial paper that the firm intends to hold to maturity. One of its liabilities is a short position in a common stock, which the

firm holds for trading purposes. How should this asset and this liability be classified on the firm's balance sheet?

- A. One should be classified as current and one should be classified as non-current.
- B. Both should be classified as non-current.
- C. Both should be classified as current.

LOS 22.e: Describe different types of assets and liabilities and the measurement bases of each.

47. A company that reports under IFRS has developed a new product which required research costs of \$2 million and development costs of \$3 million. The maximum amount the company can record as the value of the new product on its balance sheet is:

- A. \$3 million.
- B. zero.
- C. \$5 million.

48. According to International Financial Reporting Standards, how do cash dividends received from trading securities and financial securities measured at fair value through OCI affect net income?

Trading securities Fair value through OCI

- A. Increase Increase
- B. No effect Increase
- C. Increase No effect

LOS 22.f: Describe the components of shareholders' equity.

49. Carpenter Corporation reported the following statement of shareholders' equity as of December 31, 2006:

| | |
|---------------------|-----------|
| Common stock at par | \$600,000 |
|---------------------|-----------|

| | |
|--|--------------|
| Additional paid-in-capital | 900,000 |
| Treasury stock | (200,000) |
| Retained earnings | 10,500,000 |
| Accumulated other comprehensive income | 450,000 |
| | \$12,250,000 |

During 2007, Carpenter:

• earned net income of \$1,700,000.

• declared dividends of \$300,000. \$75,000 of the dividends remain unpaid.

• purchased held-to-maturity securities for \$100,000. The securities have a fair value of \$110,000 at year-end.

• purchased available-for-sale securities for \$250,000. The securities have a fair value of \$225,000 at year-end.

• translated the financial statements of a foreign subsidiary and calculated a \$90,000 unrealized gain. purchased treasury stock for \$75,000. The stock was valued at \$60,000 when issued.

Calculate Carpenter's retained earnings and accumulated other comprehensive income as of December 31, 2007.

Retained earnings Accumulated other comprehensive income

A. \$12,125,000 \$515,000

B. \$11,900,000 \$515,000

C. \$11,900,000 \$65,000

LOS 22.g: Convert balance sheets to common-size balance sheets and interpret common-size balance sheets.

50. Balance sheet data for two comparable firms are presented below:

| | Amplus, Inc. | Brevis, Inc. |
|-------------------------------|--------------|--------------|
| Cash and equivalents | 3,800 | 500 |
| Accounts receivable | 2,400 | 700 |
| Inventories | 5,800 | 1,100 |
| Current assets | 12,000 | 2,300 |
| Land | 400 | 100 |
| Property, plant and equipment | 24,600 | 6,400 |
| Noncurrent assets | 25,000 | 6,500 |
| Total assets | 37,000 | 8,800 |
| Accounts payable | 1,800 | 400 |
| Unearned revenue | 600 | 100 |
| Current liabilities | 2,400 | 500 |
| Long-term borrowing | 9,600 | 3,300 |
| Total liabilities | 12,000 | 3,800 |
| Common stock | 1,500 | 300 |
| Retained earnings | 23,500 | 4,700 |
| Total equity | 25,000 | 5,000 |
| Total liabilities and equity | 37,000 | 8,800 |

Based on common-size analysis of the two firms' balance sheets, Amplus Company:

- has a greater investment in working capital than Brevis Company.
- is more financially leveraged than Brevis Company.
- uses relatively more fixed assets than Brevis Company.

LOS 22.h: Calculate and interpret liquidity and solvency ratios.



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R22 UNDERSTANDING BALANCE SHEETS

甄选题答案

R22 UNDERSTANDING BALANCE SHEETS

LOS 22.a: Describe the elements of the balance sheet: assets, liabilities, and equity.

LOS 22.b: Describe uses and limitations of the balance sheet in financial analysis.

41.Answer: C

Liabilities are equal to \$3,790 million (\$240 million unearned revenue + \$1,570 long-term debt + \$1,150 accounts payable + \$830 accrued expenses). Stockholders' equity is equal to \$3,420 million (\$30 common stock at par + \$440 capital in excess of par – \$2,000 treasury stock + \$5,160 retained earnings – \$210 accumulated other comprehensive loss).

42.Answer: C

Balance sheet values may use a mixture of measurement bases (historical cost, fair value, etc.). As a result, balance sheet values of assets, liabilities, and equity may not reflect their intrinsic values. Balance sheets provide the information necessary to calculate the firm's solvency and liquidity ratios. Items are recognized on the balance sheet only if a flow of future economic benefits to or from the firm is probable.

LOS 22.c: Describe alternative formats of balance sheet presentation.

43.Answer: C

A classified balance sheet groups assets and liabilities by subcategories. It distinguishes between current and noncurrent assets and current and noncurrent liabilities. The assets and related liabilities are reported separately, they are not netted.

44.Answer: A

Banks often present liquidity-based balance sheets, which list all assets and liabilities in order of liquidity, because for banks this format is typically more relevant and reliable than a classified balance sheet. Firms in most other industries typically present classified balance sheets.

45.Answer: C

Liquidity-based balance sheet presentation is an exception, under IFRS only, to the requirement (under both IFRS and U.S. GAAP) for assets and liabilities to be classified as current or non-current. Under IFRS, a firm may present a liquidity-based balance sheet if this format is more reliable and relevant than a classified balance sheet.

LOS 22.d: Distinguish between current and non-current assets and current and non-current liabilities.

46.Answer: C

The commercial paper should be classified as current because it will be converted to cash in less than a year. A liability that is held primarily for trading purposes, such as this short position, should also be classified as current.

LOS 22.e: Describe different types of assets and liabilities and the measurement bases of each.

47.Answer: A

Under IFRS, research costs must be expensed but development costs, under certain circumstances, may be capitalized.

48.Answer: A

Dividends received from trading securities and available-for-sale securities are recognized in the income statement. The difference in trading and available-for-sale classifications relates to the treatment of any unrealized gains and losses.

LOS 22.f: Describe the components of shareholders' equity.

49. Answer: B

As of December 31, 2007, Carpenter's retained earnings is \$11,900,000 [\$10,500,000 beginning balance + \$1,700,000 net income – \$300,000 dividends declared]. Accumulated other comprehensive income is

\$515,000 [\$450,000 beginning balance – \$25,000 unrealized loss from available for sale securities (\$225,000 fair value – \$250,000 cost) + \$90,000 unrealized translation gain]. There is no impact on retained earnings or accumulated other comprehensive income from unrealized gains and losses on held-to-maturity securities since the securities are not reported at fair value on the balance sheet. The purchase of treasury stock does not affect comprehensive income because it is a transaction with shareholders.

LOS 22.g: Convert balance sheets to common-size balance sheets and interpret common-size balance sheets.

50. Answer: A

Common-size balance sheets for the two firms are as follows:

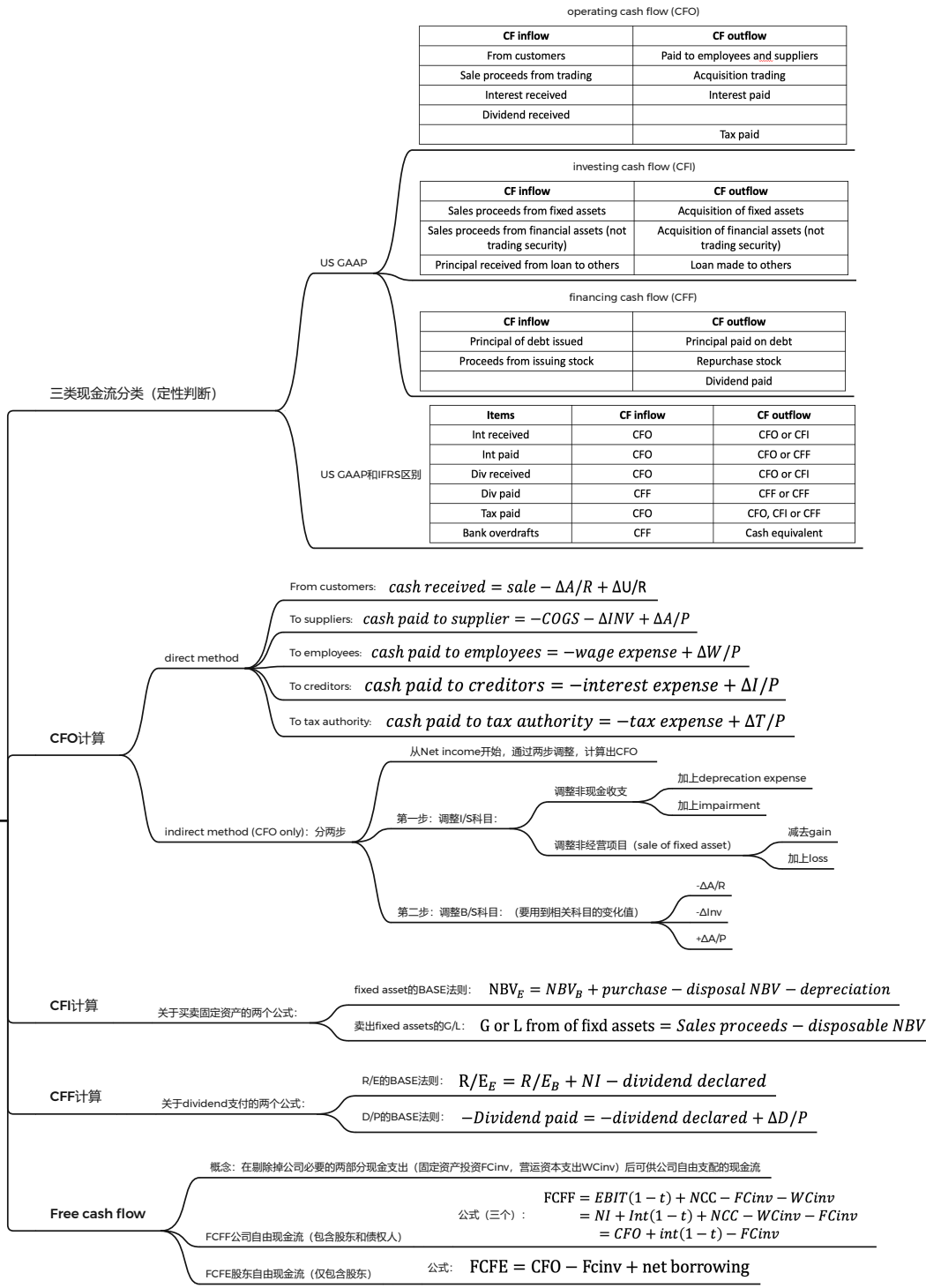
| | Amplus, Inc. | Brevis, Inc. |
|----------------------------------|-----------------|-----------------|
| Cash and equivalents | 10.3% | 5.7% |
| Accounts receivable | 6.5% | 8.0% |
| Inventories | 15.7% | 12.5% |
| Current assets | 32.4% | 26.1% |
| Land | 1.1% | 1.1% |
| Property, plant and equipment | 66.5% | 72.7% |
| Noncurrent assets | 67.6% | 73.9% |
| Total assets | 100.0% | 100.0% |
| | | |

| | | |
|------------------------------|--------|--------|
| Accounts payable | 4.9% | 4.5% |
| Unearned revenue | 1.6% | 1.1% |
| Current liabilities | 6.5% | 5.7% |
| Long-term borrowing | 25.9% | 37.5% |
| Total liabilities | 32.4% | 43.2% |
| | | |
| Common stock | 4.1% | 3.4% |
| Retained earnings | 63.5% | 53.4% |
| Total equity | 67.6% | 56.8% |
| | | |
| Total liabilities and equity | 100.0% | 100.0% |

Working capital (current assets minus current liabilities) is $32.4\% - 6.5\% = 25.9\%$ of assets for Amplus and $26.1\% - 5.7\% = 20.4\%$ of assets for Brevis. Fixed assets (property, plant, and equipment) are relatively larger for Brevis than for Amplus. Based on long-term borrowing and total liabilities, Brevis is significantly more leveraged than Amplus

LOS 22.h: Calculate and interpret liquidity and solvency ratios.

Financial reporting and analysis (L1)
R23 cash flow statement



R23 UNDERSTANDING CASH FLOW STATEMENTS

LOS 23.a: Compare cash flows from operating, investing, and financing activities and classify cash flow items as relating to one of those three categories given a description of the items.

51. If Jackson Ski Company issues common stock, and uses the proceeds to purchase fixed assets such as equipment:
- A. both cash flow from operations and cash flow from financing would increase.
 - B. cash flow from financing would increase and cash flow from investing would decrease.
 - C. cash flow from financing would decrease and cash flow from investing would increase.
52. Which of the following items is NOT found in the financing cash flow part of the statement of cash flows?
- A. Dividends paid.
 - B. Change in long-term debt.
 - C. Change in retained earnings.
53. Holden Company's fixed asset footnote included the following:
- During 20X7, Holden sold machinery for a gain of \$100,000. The machinery had an original cost of \$500,000 and its accumulated depreciation was \$240,000.
- At the end of 20X7, Holden purchased machinery at a cost of \$1,000,000. Holden paid \$400,000 cash. The balance was financed by the seller at 8% interest.
- Depreciation expense was \$2,080,000 for the year ended 20X7.

Calculate Holden's cash flow from investing activities for the year ended 20X7.

- A. \$300,000 outflow.
- B. \$40,000 outflow.
- C. \$360,000 inflow.

LOS 23.b: Describe how non-cash investing and financing activities are reported.

54. How would a stock split be reported on the statement of cash flows? A stock split would:
- A. not be reported on the statement of cash flows because it is a non-cash event.
 - B. be reported as a source of cash in the cash flows from financing.
 - C. be reported as a use of cash in the cash flows from financing.

LOS 23.c: Contrast cash flow statements prepared under International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (US GAAP).

LOS 23.d: Distinguish between the direct and indirect methods of presenting cash from operating activities and describe arguments in favor of each method.

55. For the year ended December 31, 2007, Gremlin Corporation reported the following transactions:
- ○ Issued 5,000 shares of preferred stock for land with a fair value of \$4.8 million.
 - Purchased a patent for \$3.3 million cash.
 - ○ Acquired 40% of the common stock of an affiliate for \$2.7 million cash which was borrowed from a bank.
 - ○ Exchanged equipment with a book value of \$1.7 million for equipment valued at \$2.1 million. The exchange was an even trade.
 - ○ Converted bonds payable with a book value of \$5 million to 50,000 shares of common stock with a fair value of \$6 million.

- Calculate Gremlin's cash flow from investing activities and cash flow from financing activities for the year ended December 31, 2007.
-
- Cash flow from investing activities Cash flow from financing activities
- A. \$6.0 million outflow \$2.7 million inflow
- B. \$2.7 million outflow \$6.0 million inflow
- C. \$1.7 million inflow \$1.3 million outflow

56. Use the following financial data for Moose Printing Corporation, a U.S. GAAP reporting firm, to calculate the cash flow from operations (CFO) using the indirect method.
- 1. Net income: \$225
 - 2. Increase in accounts receivable: \$55 Decrease in inventory: \$33 Depreciation: \$65
 - 3. Decrease in accounts payable: \$25 Increase in wages payable: \$15 Decrease in deferred taxes: \$10 Purchase of new equipment: \$65 Dividends paid: \$75
 - A. Increase in cash of \$248.
 - B. Increase in cash of \$173.
 - C. Increase in cash of \$183.

57. An analyst has gathered the following information about a company:

Income Statement for the Year 20X5

| | | |
|-----------------------|-----------|--------------|
| Sales | | \$1,500 |
| Expenses | | |
| COGS | \$1,300 | |
| Depreciation | 20 | |
| Goodwill | 10 | |
| Int. Expenses | <u>40</u> | |
| Total expenses | | <u>1,370</u> |
| Income from cont. op. | | 130 |
| Gain on sale | | <u>30</u> |

| | |
|-------------------|-----------|
| Income before tax | 160 |
| Income tax | <u>64</u> |
| Net Income | \$96 |

Additional Information:

- Dividends paid 30
- Common stock sold 20
- Equipment purchased 50
- Bonds issued 80
- Fixed asset sold for (original cost of \$100 with accumulated depreciation of \$70) 60
- Accounts receivable decreased by 30
- Inventory decreased by 20
- Accounts payable increased by 20
- Wages payable decreased by 10

What is the cash flow from investing?

- A. \$10.
- B. \$110.
- C. \$130.

58. Selected information from Rockway, Inc.'s U.S. GAAP financial statements for the year ended December 31, included the following (in \$):

| | 2004 | 2005 |
|---------------------------|------------|------------|
| Sales | 17,000,000 | 21,000,000 |
| Cost of Goods Sold | 11,000,000 | 15,000,000 |
| Interest Paid | 800,000 | 1,000,000 |
| Current Income Taxes Paid | 700,000 | 1,000,000 |
| Accounts Receivable | 3,000,000 | 2,500,000 |
| Inventory | 2,400,000 | 3,000,000 |

| | | |
|--------------------------|-----------|------------|
| Property, Plant & Equip. | 2,000,000 | 16,000,000 |
| Accounts Payable | 1,000,000 | 1,400,000 |
| Long-term Debt | 8,000,000 | 9,000,000 |
| Common Stock | 4,000,000 | 5,000,000 |

Using the direct method, cash provided or used by operating activities(CFO) in the year 2005 was:

- A. \$4,300,000.
 - B. \$6,300,000.
 - C. \$5,300,000.
59. An examination of the cash receipts and payments of Xavier Corporation reveals the following:

| | |
|--|---------|
| Cash paid to suppliers for purchase of merchandise | \$5,000 |
| Cash received from customers | 14,000 |
| Cash paid for purchase of equipment | 22,000 |
| Dividends paid | 2,000 |
| Cash received from issuance of preferred stock | 10,000 |
| Interest received on short-term investments | 1,000 |
| Wages paid | 4,000 |
| Repayment of loan to the bank | 5,000 |
| Cash from sale of land | 12,000 |

Under U.S. GAAP, Xavier's reported cash flow from operations will be:

- A. \$6,000.
- B. \$5,000.
- C. -\$5,000.

LOS 23.e: Describe how the cash flow statement is linked to the income statement and the balance sheet.

LOS 23.f: Describe the steps in the preparation of direct and indirect cash flow statements, including how cash flows can be computed using income statement and balance sheet data.

60. Which of the following statements about accounting procedures and their impact on the statement of cash flows is least valid? All else equal:
- A. Cash flow from financing (CFF) is higher over the life of a bond if a firm issues the bond at a premium, compared to issuing the bond at par.
 - B. A nonprofitable company that uses LIFO to account for inventory will have higher total cash flow than a nonprofitable company that uses FIFO during a period of rising prices.
 - C. A company that finances through common stock issues may have the same cash flow from financing (CFF) as a firm that issues debt.

61. In preparing its cash flow statement for the year ended December 31, 20x4, Giant Corporation collected the following data:

| | | |
|--------------------------------------|----------|-------------------------------|
| Gain on sale of equipment | \$6,000 | |
| Proceeds from sale of equipment | 10,000 | |
| Purchase of Zip Co. bonds for | 180,000 | (maturity value \$200,000) |
| Amortization of bond discount | 2,000 | |
| Dividends paid | (75,000) | |
| Proceeds from sale of Treasury stock | 38,000 | |

In its December 31, 20x4, statement of cash flows, under U.S. GAAP, what amounts should Giant report as net cash used in investing activities and net cash used in financing activities?

- | | | |
|----|-----------|------------|
| | Investing | Activities |
| A. | \$170,000 | -\$38,000 |
| B. | \$178,000 | -\$37,000 |

C. \$170,000 \$37,000

62. Which of the following items is least appropriately described as a liability arising from an operating activity for a non-financial company?

- A. Cash advances from customers.
- B. Trade payables.
- C. The current portion of long-term debt.

63. Mark Industries' income statement and related notes for the year ended December 31 are as follows (in \$):

| | |
|----------------------|--------------|
| Sales | 42,000,000 |
| Cost of Goods Sold | (32,000,000) |
| Wages Expense | (1,500,000) |
| Depreciation Expense | (2,500,000) |
| Interest Expense | (1,000,000) |
| Income Tax Expense | (2,000,000) |
| Net Income | 3,000,000 |

During the year:

- Wages Payable increased \$100,000. Accumulated Depreciation increased \$2,500,000.
- Interest Payable decreased \$200,000.
- Income Taxes Payable increased \$500,000. Dividends of \$100,000 were declared and paid.

Under U.S. GAAP, Mark Industries' cash flow from operations (CFO) for the year ended December 31 was:

- A. \$4,400,000.
- B. \$5,900,000.
- C. \$4,800,000.

64. Given the following information, what is the adjustment to net income when calculating cash flow from operations using the indirect method?

- 5. Increase in accounts payable of \$25. Sold one share of stock for \$15.
-

- ◊ 6. Paid dividends of \$10 to shareholders. Depreciation expense of \$100.
 - ◊ 7. Increase in inventory of \$20.
- A. +\$105.
B. -\$95.
C. -\$50.
65. What is the difference between the direct and the indirect method of calculating cash flow from operations?
- A. The direct method starts with sales and follows cash as it flows through the income statement, while the indirect method starts with net income and adjusts for non-cash charges and other
- B. The indirect method starts with gross income and adjusts to cash flow from operations, while the direct method starts with gross profit and flows through the income statement to calculate
- C. Balance sheet items are not included in the cash flow from operations for the direct method, while they are included for the indirect method.
66. When a U.S. company pays dividends to its stockholders, which type of cash flow does this represent?
- A. Operating.
B. Investing.
C. Financing.
67. An examination of the cash receipts and payments of Xavier Corporation reveals the following:

| | |
|--|---------|
| Cash paid to suppliers for purchase of merchandise | \$5,000 |
| Cash received from customers | 14,000 |
| Cash paid for purchase of equipment | 22,000 |
| Dividends paid | 2,000 |
| Cash received from issuance of preferred stock | 10,000 |
| Interest received on short-term investments | 1,000 |

| | |
|-------------------------------|--------|
| Wages paid | 4,000 |
| Repayment of loan to the bank | 5,000 |
| Cash from sale of land | 12,000 |

Under U.S. GAAP, Xavier's cash flow from financing (CFF) and cash flow from investing (CFI) will be:

- | | CFF | CFI |
|----|----------|-----------|
| A. | \$3,000 | \$12,000 |
| B. | \$3,000 | -\$10,000 |
| C. | \$10,000 | \$12,000 |

68. Impala Corporation reported the following financial information:

| | 2006 | 2007 |
|--|-----------|-----------|
| Balance sheet values as of December 31: | | |
| Prepaid insurance | \$650,000 | \$475,000 |
| | | 0 |
| Interest payable | 250,000 | 300,000 |
| Cash flows for the year ended December 31: | | |
| Insurance premiums paid | \$845,000 | \$750,000 |
| | | 0 |
| Interest paid | 900,000 | 900,000 |

Calculate Impala's insurance expense and interest expense for the year ended December 31, 2007.

- | | Insurance expense | Interest expense |
|----|-------------------|------------------|
| A. | \$1,020,000 | \$950,000 |

- B. \$925,000 \$950,000
- C. \$925,000 \$850,000

69. To calculate cash received from customers, an analyst would most appropriately:

- A. subtract the change in accounts receivable from net sales.
- B. subtract accounts receivable from gross sales.
- C. add the change in accounts receivable to credit sales.

LOS 23.g: Convert cash flows from the indirect to direct method.

LOS 23.h: Analyze and interpret both reported and common-size cash flow statements.

LOS 23.i: Calculate and interpret free cash flow to the firm, free cash flow to equity, and performance and coverage cash flow ratios.

70. The RR Corporation had cash flow from operations of \$20 million. RR purchased \$5 million in equipment and sold \$3 million of equipment during the period.

What is RR's free cash flow to equity for the period?

- A. \$15 million.
- B. \$22 million.
- C. \$18 million.

71. Selected information from the most recent cash flow statement of Thibault Company appears below:

| | |
|-------------------------|----------|
| Cash collections | €8,900 |
| Cash paid to suppliers | (€3,700) |
| Cash operating expenses | (€1,500) |
| Cash taxes paid | (€2,400) |

| | |
|---------------------------------------|-----------------|
| Cash from operating activities | €1,300 |
| Cash paid for plant and equipment | (€2,600) |
| Cash interest received | €700 |
| Cash dividends received | €600 |
| Cash from investing activities | (€1,300) |
| Cash received from debt issuance | €2,000 |
| Cash interest paid | (€400) |
| Cash dividends paid | (€600) |
| Cash from financing activities | €1,000 |
| Total change in cash | €1,000 |

Thibault's reinvestment ratio for this period is closest to:

- A. 0.50.
- B. 0.75.
- C. 1.00.

R23 UNDERSTANDING CASH FLOW STATEMENTS
甄选题答案

R23 UNDERSTANDING CASH FLOW STATEMENTS

LOS 23.a: Compare cash flows from operating, investing, and financing activities and classify cash flow items as relating to one of those three categories given a description of the items.

51.Answer: B

Cash flow from financing increases when stock is issued, while cash flow from investing decreases when spending for purchases of fixed assets.

52.Answer: C

Changes in retained earnings are not included in the calculation of financing cash flows.

53.Answer: B

Given the gain of \$100,000 and book value of the machinery sold of \$260,000 (\$500,000 original cost –

\$240,000 accumulated depreciation), the proceeds from the sale of the machinery were \$360,000 (\$100,000 gain + \$260,000 book value). For 20X7, CFI was an outflow of \$40,000 (\$360,000 sale proceeds –\$400,000 machinery purchase). The \$600,000 financed by the seller is a non-cash transaction and is reported in the notes to the cash flow statement.

LOS 23.b: Describe how non-cash investing and financing activities are reported.

54.Answer: A

No cash is involved in a stock split--shares are exchanged for shares.

LOS 23.c: Contrast cash flow statements prepared under International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (US GAAP).

LOS 23.d: Distinguish between the direct and indirect methods of presenting cash from operating activities and describe arguments in favor of each method.

55.Answer: A

Only the acquisition of common stock of the affiliate for \$2.7 million and the purchase of the patent for \$3.3 million are included in cash flow from investing activities. Since the acquisition of the stock purchase was financed with a bank loan, \$2.7 million will be reported as a financing inflow. Both remaining transactions are non-cash transactions and are disclosed in the notes to or in a supplementary schedule to the cash flow statement.

56.Answer:A

CFO for Moose Printing Corporation is calculated as follows:

+Net Income \$225 – A/R \$55 + Inventory \$33 + Depreciation \$65 – A/P \$25 + Wages Payable \$15 – Deferred taxes \$10 = \$248.

The purchase of new equipment is an investing activity and therefore is not included in CFO. Dividends paid is a financing activity and is not included in CFO.

57.Answer: A

Purchase of equipment -\$50 Fixed asset sold \$60 CFI \$10

58.Answer: A

Cash provided or used by operating activities under the direct method is computed by adding cash inflows and subtracting cash inputs and cash outflows. Operating Cash inflows for Rockway Inc. for 2005 came from sales (\$21,000,000) and decrease in accounts receivable (\$3,000,000 – \$2,500,000 = \$500,000) for net cash inflows of (\$21,000,000 + \$500,000 =) \$21,500,000. Operating cash inputs were

cost of goods sold (\$15,000,000), plus the increase in inventory (\$3,000,000 – \$2,400,000 = \$600,000) less the increase in accounts payable, (which is a source of funds) (\$1,000,000 – \$1,400,000 = -\$400,000) for net cash inputs of (\$15,000,000 + \$600,000 - \$400,000 =) \$15,200,000. Other operating cash outflows were interest paid (\$1,000,000) and current income taxes paid (\$1,000,000) totaling (\$2,000,000). Cash provided by operations was (\$21,500,000 – \$15,200,000 – \$2,000,000 =) \$4,300,000. Changes in property, plant and equipment, long-term debt and common stock do not affect cash from operations.

59.Answer: A

Cash flow relating to operating activities includes cash paid to suppliers, cash received from customers, interest received, and wages paid. $-5,000 + 14,000 + 1,000 + -4,000 = 6,000$.

LOS 23.e: Describe how the cash flow statement is linked to the income statement and the balance sheet.

LOS 23.f: Describe the steps in the preparation of direct and indirect cash flow statements, including how cash flows can be computed using income statement and balance sheet data.

60.Answer: B

Because of the impact of income taxes, a profitable company that accounts for inventory using LIFO will have higher total cash flow than a profitable company that uses FIFO. The company that uses LIFO will have higher cost of goods sold, resulting in lower net income and thus lower taxes.

The other statements are accurate:

A company that issues common stock is not required to pay dividends (which would reduce cash flow from financing). Thus, it may have the same CFF as a firm that issues debt since interest paid on debt is a component of CFO.

- When a company issues bonds at a premium, the proceeds raised at issuance (CFF inflow) are greater than the par value repaid at maturity (CFF outflow). For bonds issued at par, the CFF inflow at issuance is equal to the CFF outflow at maturity.

61.Answer: C

Investing Activities:

$\$10,000 - \$180,000 = -\$170,000$ cash flow from investing or $\$170,000$ used

Financing Activities:

$\$38,000 - \$75,000 = -\$37,000$ cash flow from financing or $\$37,000$ used

Note that the question asked for net cash used therefore this is a positive cash outflow.

62.Answer: C

The current portion of long-term debt arises from a financing activity. The other items listed arise from operating activities.

63.Answer: B

Using the indirect method, net income is adjusted by adding back depreciation (a non-cash expense) and changes in working capital: the increase in wages payable and the increase in income taxes payable are sources of cash, and the decrease in interest payable is a use of cash. Dividends paid are financing cash flows under U.S. GAAP.

$CFO = \$3,000,000 + \$2,500,000 + \$100,000 + \$500,000 - \$200,000 = \$5,900,000.$

64.Answer: A

Using the indirect method, the increase in accounts payable is a source of cash from operations (+25), depreciation expense is a non-cash expense added back in computing cash from operations (+100), and increase in inventory is a use of cash from operations (-20) = $25 + 100 - 20 = 105$. The sale of stock and the dividends paid are financing cash flows that are not included in net income, so they do not require adjustment when calculating CFO.

65.Answer: A

The main difference between the direct and indirect methods of calculating cash flows is the way that cash flow from operations is calculated. The direct method starts with sales and follows cash as it flows through the income

statement, while the indirect method starts with income after taxes and adjusts backwards for non-cash and other items. Both methods will have the same result for operating cash flows. The direct and indirect method calculates the financing and investing cash flows the same way and both methods will result in the same cash flow figure.

66.Answer: C

Dividends paid to stockholders are considered cash outlays from financing according to U.S. GAAP.

67.Answer: B

Cash flow relating to financing activities includes dividends paid, cash received from preferred stock, and repayment of loan. $-2,000 + 10,000 + -5,000 = 3,000$.

Cash flow relating to investing activities includes cash paid for equipment and cash from sale of land.

$$-22,000 + 12,000 = -10,000.$$

68.Answer: B

Cash paid for insurance = insurance expense + change in prepaid insurance, so insurance expense = cash paid for insurance – change in prepaid insurance. Insurance expense for 2007 is equal to \$925,000 [(\$750,000 cash paid for insurance – (-\$175,000)]. Interest expense for 2007 is equal to \$950,000 (\$900,000 cash interest paid + \$50,000 increase in interest payable).

69.Answer: A

Cash received from customers is most appropriately calculated by subtracting the change in accounts receivable from net sales.

LOS 23.g: Convert cash flows from the indirect to direct method.

LOS 23.h: Analyze and interpret both reported and common-size cash flow statements.

LOS 23.i: Calculate and interpret free cash flow to the firm, free cash flow to equity, and performance and coverage cash flow ratios.

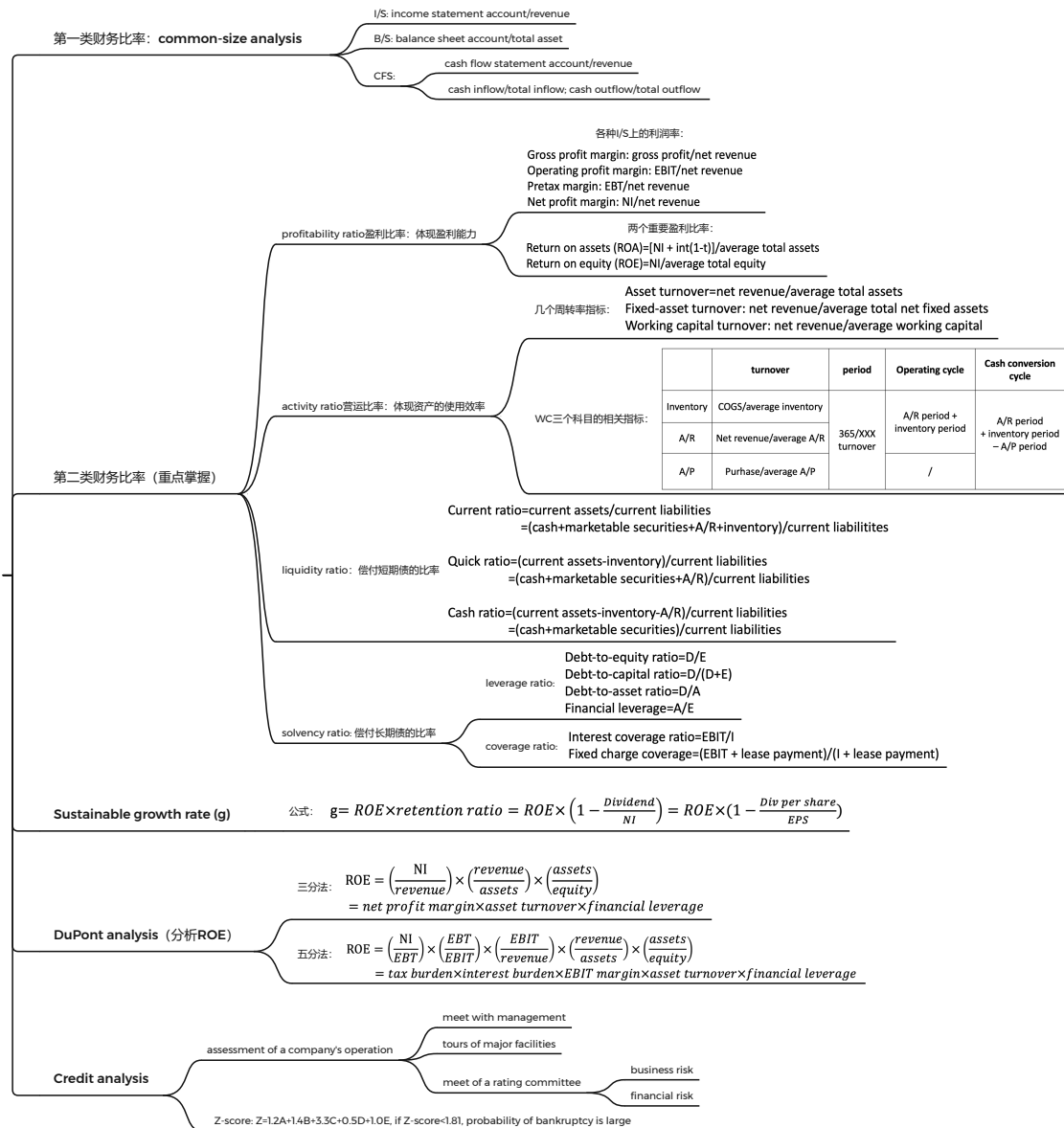
70.Answer: C

Free cash flow to equity (FCFE) is generally defined as cash flow from operations (CFO) less net fixed capital expenditures plus net borrowing. No information on borrowing is given here, so $FCFE = 20 - (5 - 3) = \$18$ million.

71.Answer: A

The reinvestment ratio is CFO divided by cash paid for long-term assets: $€1,300 / €2,600 = 0.5$. (Note that on this cash flow statement, CFI includes interest and dividends received and CFF includes interest paid, which is acceptable under IFRS.)

Financial reporting and analysis (L1)
R24 financial analysis techniques



R24 FINANCIAL ANALYSIS TECHNIQUES

a. LOS 24.a: Describe tools and techniques used in financial analysis, including their uses and limitations.

72. Which of the following reasons is least likely a valid limitation of ratio analysis?
- A. Calculation of ratios involves a large degree of subjectivity.
 - B. It is difficult to find comparable industry ratios.
 - C. Determining the target or comparison value for a ratio is difficult.
73. Regarding the use of financial ratios in the analysis of a firm's financial statements, it is most accurate to say that:
- A. variations in accounting treatments have little effect on financial ratios.
 - B. a range of target values for a ratio may be more appropriate than a single target value.
 - C. many financial ratios are useful in isolation.
74. Comparing a company's ratios with those of its competitors is best described as:
- A. cross-sectional analysis.
 - B. common-size analysis.
 - C. longitudinal analysis.

LOS 24.b: Classify, calculate, and interpret activity, liquidity, solvency, profitability, and valuation ratios.

75. Goldstar Manufacturing has an accounts receivable turnover of 10.5 times, an inventory turnover of 4 times, and payables turnover of 8 times. What is Goldstar's cash conversion cycle?
- A. 80.38 days.

- B. 6.50 days.
- C. 171.64 days.

76. During 2007, Brownfield Incorporated purchased \$140 million of inventory. For the year just ended, Brownfield reported cost of goods sold of \$130 million. Inventory at year-end was \$45 million. Calculate inventory turnover for the year.

- A. 2.89.
- B. 3.25.
- C. 3.71.

77. Which of the following ratios would least likely measure liquidity?

- A. Current ratio.
- B. Return on assets (ROA).
- C. Quick ratio.

78. The following data applies to the XTC Company:

Sales = \$1,000,000.

Receivables = \$260,000. Payables = \$600,000.

Purchases = \$800,000. COGS = \$800,000.

Inventory = \$400,000. Net Income = \$50,000. Total Assets = \$800,000. Debt/Equity = 200%.

What is the average collection period, the average inventory processing period, and the payables payment period for XTC Company?

Average Collection Period

Average Inventory Processing Period

Payables Payments Period

- | | | | |
|----|---------|----------|----------|
| A. | 95 days | 183 days | 274 days |
| B. | 55 days | 195 days | 231 days |
| C. | 45 days | 45 days | 132 days |

79. Are the quick ratio and the debt-to-capital ratio used primarily to assess a company's ability to meet short-term obligations?

Quick ratio Debt-to-capital-ratio

- A. Yes Yes
- B. Yes No
- C. No Yes

LOS 24.c: Describe relationships among ratios and evaluate a company using ratio analysis. （此章节考察 Ratio 应用灵活性）

80. Given the following income statement and balance sheet for a company:

Balance Sheet

| | Year 2006 | Year 2007 |
|----------------------------|-----------|-----------|
| Assets | | |
| Cash | 200 | 450 |
| Accounts Receivable | 600 | 660 |
| Inventory | 500 | 550 |
| Total CA | 1300 | 1660 |
| Plant, prop. equip | 1000 | 1580 |
| Total Assets | 2600 | 3240 |
| Liabilities | | |
| Accounts Payable | 500 | 550 |
| Long term debt | 700 | 1052 |
| Total liabilities | 1200 | 1602 |
| Equity | | |
| Common Stock | 400 | 538 |
| Retained Earnings | 1000 | 1100 |
| Total Liabilities & Equity | 2600 | 3240 |
| Income Statement | | |

| | |
|--------------------|--------|
| Sales | 3000 |
| Cost of Goods Sold | (1000) |
| Gross Profit | 2000 |
| SG&A | 500 |
| Interest Expense | 151 |
| EBT | 1349 |
| Taxes (30%) | 405 |
| Net Income | 944 |

Which of the following is closest to the company's return on equity (ROE)?

- A. 0.29.
- B. 1.83.
- C. 0.62.

LOS 24.d: Demonstrate the application of DuPont analysis of return on equity and calculate and interpret effects of changes in its components.

81. If a firm has a net profit margin of 0.05, an asset turnover of 1.465, and a leverage ratio of 1.66, what is the firm's ROE?
- A. 5.87%.
 - B. 3.18%.
 - C. 12.16%.
82. In the year 20X4, a company had a net profit margin of 18%, total asset turnover of 1.75, and a financial leverage multiplier of 1.5. If the company's net profit margin declines to 10% in 20X5, what total asset turnover would be needed in order to maintain the same return on equity as in 20X4, assuming there is no change in the financial leverage multiplier?
- A. 2.50.
 - B. 3.15.
 - C. 1.85.

83. A firm's financial statements reflect the following:

| | |
|-----------------------------|---------------------|
| <i>Net profit margin</i> | <i>15%</i> |
| <i>Sales</i> | <i>\$10,000,000</i> |
| <i>Interest payments</i> | <i>\$1,200,000</i> |
| <i>Avg. assets</i> | <i>\$15,000,000</i> |
| <i>Equity</i> | <i>\$11,000,000</i> |
| <i>Avg. working capital</i> | <i>\$800,000</i> |
| <i>Dividend payout rate</i> | <i>35%</i> |

Which of the following is the closest estimate of the firm's sustainable growth rate?

- A. 9%.
- B. 10%.
- C. 8%.

LOS 24.e: Calculate and interpret ratios used in equity analysis and credit analysis.

84. An analyst calculates the following data for three firms in an industry over the most recent 40 quarters:

| | | | |
|--------------|----------------|---------------|----------------|
| Sales | | Net | |
| Mean | Std Dev | income | Std Dev |
| | | Mean | |

| | | | | |
|----------|----------|----------|---------|---------|
| Jerome | 1,200,00 | 400,000 | 120,000 | 80,000 |
| | 0 | | | |
| Lawrence | 3,500,00 | 700,000 | 400,000 | 300,000 |
| | 0 | | | |
| Morris | 6,400,00 | 1,600,00 | 800,000 | 400,000 |
| | 0 | 0 | | |

Based only on these data, the analyst should conclude that, relative to the other two firms:

- A. Morris has the greatest uncertainty about its sales.
- B. Jerome has the least uncertainty about its net income.
- C. Lawrence has the greatest uncertainty about its net income.

LOS 24.f: Explain the requirements for segment reporting and calculate and interpret segment ratios.

85. A company must report separate financial information for any segment of their business which:
- A. is located in a country other than the firm's home country.
 - B. is more than 20% of a firm's revenues.
 - C. accounts for more than 10% of the firm's assets and has risk and return characteristics distinguishable from the company's other lines of business.
86. Companies are required to report segment data under:
- A. U.S. GAAP but not IFRS.
 - B. both IFRS and U.S. GAAP.
 - C. IFRS but not U.S. GAAP.

LOS 24.g: Describe how ratio analysis and other techniques can be used to model and forecast earnings.

R24 FINANCIAL ANALYSIS TECHNIQUES
甄选题答案

R24 FINANCIAL ANALYSIS TECHNIQUES

a. LOS 24.a: Describe tools and techniques used in financial analysis, including their uses and limitations.

72.Answer: A

There is not a great deal of subjectivity involved in calculating ratios. The mechanical formulas for the calculations are fairly standard and objective for the activity, liquidity, solvency, and profitability ratios, for instance. On the other hand, determining the target or comparison value for a ratio is difficult as it requires some range of acceptable values and that introduces an element of subjectivity. Conclusions cannot be made from viewing one set of ratios as all ratios must be viewed relative to one another in order to make meaningful conclusions. It can be difficult to find comparable industry ratios, especially when analyzing companies that operate in multiple industries.

73.Answer: B

Determining a target value for a ratio is difficult, so a range of values may be more appropriate. Financial ratios are not useful when viewed in isolation and are only valid when compared to historical figures or peers. Comparing ratios between firms can be complicated by variations in accounting treatments used at each firm.

74.Answer: A

Comparing a company's ratios with those of its competitors is known as cross-sectional analysis.

LOS 24.b: Classify, calculate, and interpret activity, liquidity, solvency, profitability, and valuation ratios.

75.Answer: A

The cash conversion cycle = average receivables collection period + average

inventory processing period – payables payment period. The average receivables collection period = $365 / \text{average receivables turnover}$ or $365 / 10.5 = 34.76$. The average inventory processing period = $365 / \text{inventory turnover}$ or $365 / 4 = 91.25$. The payables payment period = $365 / \text{payables turnover ratio}$ = $365 / 8 = 45.63$. Putting it all together: cash conversion cycle = $34.76 + 91.25 - 45.63 = 80.38$.

76.Answer: B

First, calculate beginning inventory given COGS, purchases, and ending inventory. Beginning inventory was \$35 million [$\$130 \text{ million COGS} + \$45 \text{ million ending inventory} - \$140 \text{ million purchases}$]. Next, calculate average inventory of \$40 million [$(\$35 \text{ million beginning inventory} + \$45 \text{ million ending inventory}) / 2$]. Finally, calculate inventory turnover of 3.25 [$\$130 \text{ million COGS} / \$40 \text{ million average inventory}$].

77.Answer: B

ROA = (EBIT / average total assets) which measures management's ability and efficiency in using the firm's assets to generate operating profits. Other ratios that measure liquidity (if a company can pay its current bills) besides the quick, cash, and current ratios are the: receivables turnover, inventory turnover, and payables turnover ratios.

78.Answer: A

Receivables turnover = $\$1,000,000 / \$260,000 = 3.840$ Average collection period = $365 / 3.840 = 95.05$ or 95 days
Inventory turnover = $\$800,000 / \$400,000 = 2$
Average inventory processing period = $365 / 2 = 183$ days
Payables turnover ratio = $\$800,000 / \$600,000 = 1.333$ Payables payment period = $365 / 1.333 = 273.82$ or 274 days

79.Answer: B

The quick ratio is a liquidity ratio. Liquidity ratios are used to measure a firm's ability to meet its short- term obligations. The debt-to-capital ratio is a solvency ratio.

Solvency ratios are used to measure a firm's ability to meet its longer-term obligations.

LOS 24.c: Describe relationships among ratios and evaluate a company using ratio analysis. (此章节考察 Ratio 应用灵活性)

80.Answer: C

There are several ways to approach this question but the easiest way is to recognize that $ROE = NI / \text{average equity}$ thus $ROE = 944 / 1,519 = 0.622$.

If using the traditional DuPont, $ROE = (NI / \text{Sales}) \times (\text{Sales} / \text{Assets}) \times (\text{Assets} / \text{Equity})$: $ROE = (944 / 3,000) \times (3,000 / 2,920) \times (2,920 / 1,519) = 0.622$

The 5-part Dupont formula gives the same result:

$ROE = (\text{net income} / \text{EBT})(\text{EBT} / \text{EBIT})(\text{EBIT} / \text{revenue})(\text{revenue} / \text{total assets})(\text{total assets} / \text{total equity})$

Where $EBIT = \text{EBT} + \text{interest} = 1,349 + 151 = 1,500$

$ROE_{2007} = (944 / 1,349)(1,349 / 1,500)(1,500 / 3,000)(3,000 / 2,920)(2,920 / 1,519) = 0.622$

LOS 24.d: Demonstrate the application of DuPont analysis of return on equity and calculate and interpret effects of changes in its components.

81.Answer: C

One of the many ways to express $ROE = \text{net profit margin} \times \text{asset turnover} \times \text{leverage ratio}$ $ROE = (0.05)(1.465)(1.66) = 0.1216$

82.Answer: B

ROE in 20X4 was $0.18 \times 1.75 \times 1.5 = 0.4725$.

If ROE for 20X5 is unchanged from 20X4, then:

$0.10 \times \text{asset turnover} \times 1.5 = 0.4725$ Asset turnover = 3.15.

83.Answer: A

Return on equity (ROE) = net profit margin \times asset turnover \times leverage = $(0.15)(0.67)(1.364) = 0.137$. The sustainable growth = $(1 - \text{dividend rate})(ROE) =$

$$(0.65)(0.137) = 8.9\%$$

LOS 24.e: Calculate and interpret ratios used in equity analysis and credit analysis.

84.Answer: C

$$\text{Jerome CV sales} = 400,000 / 1,200,000 = 0.33$$

$$\text{Lawrence CV sales} = 700,000 / 3,500,000 = 0.20$$

$$\text{Morris CV sales} = 1,600,000 / 6,400,000 = 0.25$$

Uncertainty about sales is greatest for Jerome and least for Lawrence. Jerome CV net income = 80,000 / 120,000 = 0.67

$$\text{Lawrence CV net income} = 300,000 / 400,000 = 0.75 \quad \text{Morris CV net income} = 400,000 / 800,000 = 0.50$$

Uncertainty about net income is greatest for Lawrence and least for Morris.

LOS 24.f: Explain the requirements for segment reporting and calculate and interpret segment ratios.

85.Answer: C

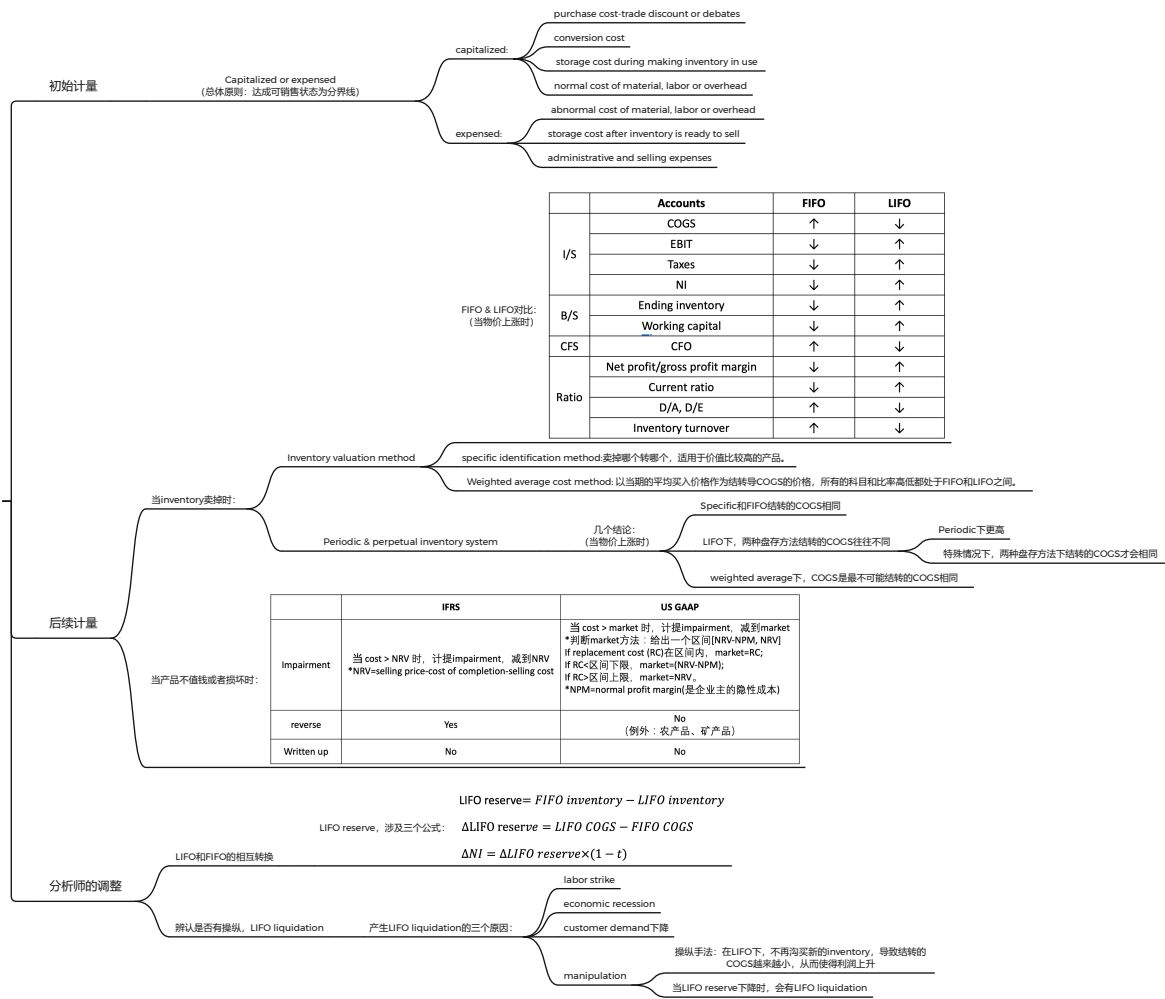
Financial statement items must be reported separately for any segment of a firm's business that is greater than 10% of revenue or assets and has risk and return characteristics that are distinguishable from those of the company's other lines of business. Requirements for reporting of geographic segments have the same size threshold and the segment must operate in a business environment that is different from that of the firm's other segments.

86.Answer: B

Both IFRS and U.S. GAAP require companies to report segment data.

LOS 24.g: Describe how ratio analysis and other techniques can be used to model and forecast earnings.

Financial reporting and analysis (L1)
R25 Inventory



R25 INVENTORIES

LOS 25.a: Distinguish between costs included in inventories and costs recognised as expenses in the period in which they are incurred.

87. Goldberg Inc. produces and sells electronic equipment. Which of the following inventory costs is most likely
8. to be recognized as an expense on Goldberg's financial statements in the period incurred?
- A. Selling cost.
 - B. Conversion cost.
 - C. Freight costs on inputs.

LOS 25.b: Describe different inventory valuation methods (cost formulas).

88. In an environment of increasing prices, the last-in first-out (LIFO) inventory cost method results in:
- A. cost of sales near current cost and inventory below replacement cost.
 - B. cost of sales below current cost and inventory above replacement cost.
 - C. inventory near replacement cost and cost of sales below current cost.

LOS 25.c: Calculate and compare cost of sales, gross profit, and ending inventory using different inventory valuation methods and using perpetual and periodic inventory systems.

89. A company that uses the LIFO inventory cost method records the following purchases and sales for an accounting period:
- Beginning inventory, July 1: \$5,000, 10 units July 8: Purchase of \$2,600 (5 units)
July 12: Sale of \$2,200 (4 units)
- July 15: Purchase of \$2,800 (5 units) July 21: Sale of \$1,680 (3 units)
- The company's cost of goods sold using a perpetual inventory system is:

- A. \$3,760.
- B. \$3,500.
- C. \$3,780.

90. Given the following data and assuming a periodic inventory system, what is the ending inventory using the average cost method?

| Purchases | Sales |
|-----------------------|-----------------------|
| 40 units at \$60/unit | 25 units at \$65/unit |
| 50 units at \$55/unit | 30 units at \$60/unit |
| 60 units at \$45/unit | 40 units at \$50/unit |

- A. \$2,878.
- B. \$2,933.
- C. \$3,141.

91. During periods of rising prices and stable or growing inventories, the most informative inventory accounting method for income statement purposes is:

- A. LIFO because it allocates current prices to cost of good sold (COGS) and provides a better measure of current income.
- B. FIFO because it allocates historical prices to cost of good sold (COGS) and provides a better measure of current income.
- C. weighted average because it allocates average prices to cost of good sold (COGS) and provides a better measure of current income.

LOS 25.d: Calculate and explain how inflation and deflation of inventory costs affect the financial statements and ratios of companies that use different inventory valuation methods.

LOS 25.e: Explain LIFO reserve and LIFO liquidation and their effects on financial statements and ratios.

92. An analyst gathers the following information about a firm:

Last in, first out (LIFO) inventory = \$10,000 Beginning LIFO reserve = \$2,500

Ending LIFO reserve = \$4,000 LIFO cost of goods sold = \$15,000 LIFO net income = \$1,500

Tax rate is 40%

To convert the financial statements to a FIFO basis, the amount the analyst should add to the stockholders' equity is closest to:

- A. \$4,000.
- B. \$2,400.
- C. \$2,800.

93. LIFO liquidation may result when:

- A. cost of goods sold is less than the available inventory.
- B. purchases are more than goods sold.
- C. purchases are less than goods sold.

94. The year-end financial statements for a firm using LIFO inventory accounting show an inventory level of \$5,000, cost of goods sold of \$16,000, and inventory purchases of \$14,500. If the LIFO reserve is \$4,000 at year-end and was \$1,500 at the beginning of the year, what would the cost of goods sold have been using FIFO inventory accounting?

- A. \$18,500.
- B. \$13,500.
- C. \$12,000.

95. An analyst is comparing a company that uses the LIFO inventory cost method to companies that use FIFO for inventories. The analyst should adjust the LIFO firm's inventories by adding the:

- A. LIFO reserve.

- B. change in the LIFO reserve.
- C. LIFO reserve, net of tax.

LOS 25.f: Convert a company's reported financial statements from LIFO to FIFO for purposes of comparison.

LOS 25.g: Describe the measurement of inventory at the lower of cost and net realizable value.

96. A U.S. GAAP firm writes down inventory to net realizable value. In the period of the writedown, what is the most likely effect on cost of goods sold?
- A. Increase.
 - B. Decrease.
 - C. No effect.

LOS 25.h: Describe implications of valuing inventory at net realizable value for financial statements and ratios.

LOS 25.i: Describe the financial statement presentation of and disclosures relating to inventories.

LOS 25.j: Explain issues that analysts should consider when examining a company's inventory disclosures and other sources of information.

LOS 25.k: Calculate and compare ratios of companies, including companies that use different inventory methods

LOS 25.l: Analyze and compare the financial statements of companies, including companies that use different inventory methods.

97. Which of the following ratio levels would suggest that a company is holding obsolete inventory?
- A. Low inventory value compared to cost of goods sold.
 - B. Low number of days in inventory.
 - C. Low inventory turnover ratio.

98. Selected information from Jenner, Inc.'s financial statements for the year ended December 31 included the following (in \$):

| | | | |
|---------------------------------|------------|----------------------------|--------------|
| Cash | \$200,000 | Accounts Payable | \$300,000 |
| Accounts Receivable | 300,000 | Deferred Tax Liability | 600,000 |
| Inventory | 1,500,000 | Long-term Debt | 8,100,000 |
| Property, Plant & Equip. | 11,000,000 | Common Stock | 2,200,000 |
| Total Assets | 13,000,000 | Retained Earnings | 1,800,000 |
| | | Total Liabilities & Equity | \$13,000,000 |
| LIFO Reserve at Jan. 1 | 400,000 | | |
| LIFO Reserve at Dec. 31 | 600,000 | | |
| Net Income (after 40% tax rate) | 800,000 | | |

Jenner uses the last in, first out (LIFO) inventory cost flow assumption. If Jenner had used first in, first out (FIFO), return on total equity would:

- A. increase to 23.0%.
- B. decrease to 18.3%.
- C. increase to 21.1%.

99. Barber Inc., which uses LIFO inventory accounting under U.S. GAAP, sells DVD recorders. On October 14, it purchased a large number of recorders at a cost of \$90 each. Due to an oversupply of recorders remaining in the marketplace due to lower than anticipated demand during the Christmas season, the selling price at December 31 is \$80 and the replacement cost is \$73. The normal profit margin is 5 percent of the selling price and the selling costs are \$2 per recorder. What is the value of the recorders on December 31?

- A. \$78.
- B. \$73.
- C. \$74.

100. Judah Inc. prepares its financial statements under IFRS. On December 31, 20X8, Judah has inventory of manufactured goods with a cost of \$720,000. The estimated selling cost of that inventory is \$50,000 and its market value is \$740,000. By January 31, 20X9, none of the inventory has been sold but its

market value has increased to \$810,000. Selling costs remain the same. Which of the following entries is most likely permissible under IFRS?

- A. Write down inventory by \$30,000 on December 31, 20X8 and write up inventory by \$30,000 on January 31, 20X9.
- B. Make no adjustments to the valuation of inventory on either date.
- C. Write down inventory by \$30,000 on December 31, 20X8 and write up inventory by \$70,000 on January 31, 20X9.

101. Moore Ltd. uses the LIFO inventory cost flow assumption. Its cost of goods sold in 20X8 was \$800. A footnote in its financial statements reads: "Using FIFO, inventories would have been \$70 higher in 20X8 and \$80 higher in 20X7." Moore's COGS if FIFO inventory costing were used in 20X8 is closest to:

- A. \$790.
- B. \$730.
- C. \$810.

102. In periods of decreasing prices, which of the following statements is most accurate? Compared to FIFO, LIFO results in:

- A. higher inventory balances and higher working capital.
- B. lower COGS, lower taxes and higher net income.
- C. higher inventory balances and lower working capital.



R25 INVENTORIES

甄选题答案

R25 INVENTORIES

LOS 25.a: Distinguish between costs included in inventories and costs recognised as expenses in the period in which they are incurred.

87.Answer: A

Selling costs are expensed in the period incurred since they result in no future benefit (i.e. the inventory has been sold). Conversion costs and freight costs add value in assisting in the future sale of the related inventory. Therefore, these costs are not recognized until the inventory is ultimately sold.

LOS 25.b: Describe different inventory valuation methods (cost formulas).

88.Answer: A

LIFO assumes the most recently purchased items are the first items sold. In an increasing or decreasing price environment, LIFO results in cost of sales that are nearer to current costs compared to other inventory cost methods, and inventory values based on outdated prices (below replacement cost if prices are increasing, above replacement cost if prices are decreasing).

LOS 25.c: Calculate and compare cost of sales, gross profit, and ending inventory using different inventory valuation methods and using perpetual and periodic inventory systems.

89.Answer: A

With a perpetual inventory system, units purchased and sold are recorded in inventory in the order that the purchases and sales occur. Cost of goods sold for the July 12 sale uses 4 of the units purchased on July 8: $4 \times (\$2,600 / 5) = \$2,080$. Cost of goods sold for the July 21 sale uses 3 of the units purchased on July 15: $3 \times (\$2,800 / 5) = \$1,680$. $\text{COGS} = \$2,080 + \$1,680 = \$3,760$.

90.Answer: A

Average cost per unit purchased:

40 units at \$60/per unit = \$2,400 50 units at \$55/per unit = \$2,750 60 units at \$45/per unit = \$2,700

Total = 150 units = \$7,850

Average cost per unit = $\$7,850 / 150 \text{ units} = \$52.33/\text{unit}$ Purchased 40 + 50 + 60 = 150 units. Sold 25 + 30 + 40 = 95 Ending inventory = 150 – 95 = 55 units × $\$52.33/\text{unit} = \$2,878$

91.Answer: A

LIFO is the most informative inventory accounting method for income statement purposes in periods of rising prices and stable or growing inventories. It allocates the most recent purchase prices to COGS, and thus provides a better measure of current income and future profitability.

LOS 25.d: Calculate and explain how inflation and deflation of inventory costs affect the financial statements and ratios of companies that use different inventory valuation methods.

LOS 25.e: Explain LIFO reserve and LIFO liquidation and their effects on financial statements and ratios.

92.Answer: B

If the firm had used FIFO inventory cost, tax liability would be higher by (LIFO reserve × tax rate) and retained earnings would be higher by [LIFO reserve × (1 – tax rate)].
 $(\text{LIFO reserve})(1 - t) = \$4,000(1 - 0.4) = \$2,400.$

93.Answer: C

For LIFO companies, when more goods are sold than are purchased during a period, the goods held in opening inventory are included in COGS. This will result in LIFO

liquidation.

94.Answer: B

$$\begin{aligned}\text{FIFO COGS} &= \text{LIFO COGS} - \text{change in LIFO reserve} \\ &= \$16,000 - (\$4,000 - \$1,500) = \$13,500.\end{aligned}$$

95.Answer: A

FIFO inventory equals LIFO inventory plus the LIFO reserve.

LOS 25.f: Convert a company's reported financial statements from LIFO to FIFO for purposes of comparison.

LOS 25.g: Describe the measurement of inventory at the lower of cost and net realizable value.

96.Answer: A

A write-down of inventory to net realizable value is typically recognized under U.S. GAAP as an increase in cost of goods sold in the period of the write-down. Consider the inventory equation:

$$\text{ending inventory} = \text{beginning inventory} + \text{purchases} - \text{cost of goods sold}$$

A write-down to NRV decreases ending inventory, with no effect on beginning inventory or purchases. For the inventory equation to hold, cost of goods sold must increase.

LOS 25.h: Describe implications of valuing inventory at net realizable value for financial statements and ratios.

LOS 25.i: Describe the financial statement presentation of and disclosures relating to inventories.

LOS 25.j: Explain issues that analysts should consider when examining a company's inventory disclosures and other sources of information.

LOS 25.k: Calculate and compare ratios of companies, including companies that use different inventory methods

LOS 25.I: Analyze and compare the financial statements of companies, including companies that use different inventory methods.

97.Answer: C

Low inventory turnover (high number of days in inventory) may be a sign of slow-moving or obsolete inventory, especially when coupled with low or declining revenue growth compared to the industry. Low inventory value compared to cost of goods sold, however, implies a high inventory turnover ratio. This suggests much less risk of obsolescence.

98.Answer: C

Return on total equity (net income / total equity) was $\$800,000 / (\$2,200,000 + \$1,800,000) = 20\%$. Under FIFO, net income increases by the increase in the LIFO reserve multiplied by $(1 - \text{tax rate})$. FIFO net income was $\$800,000 + (\$600,000 - \$400,000) (1 - 0.40) = \$920,000$. Total equity increases by the amount of accumulated FIFO profits that are added to retained earnings, which is calculated by multiplying the amount of the ending LIFO reserve by $(1 - \text{tax rate})$ for an increase of $(\$600,000) \times (1 - 0.40) = \$360,000$.

Total equity is $\$2,200,000 + \$1,800,000 + \$360,000 = \$4,360,000$. FIFO return on total equity is $\$920,000 / \$4,360,000 = 21.1\%$.

99.Answer: C

Under U.S. GAAP, a LIFO firm values inventory at the lower of cost or market. Market is equal to the replacement cost subject to replacement cost being within a specific range. The upper bound is net realizable value (NRV), which is equal to selling price (\$80) less selling costs (\$2) for an NRV of \$78. The lower bound is NRV (\$78) less normal profit (5% of selling price = \$4) for a net amount of \$74. Since replacement cost (\$73) is less than NRV minus normal profit (\$74), then market equals NRV minus normal profit (\$74). As well, we have to use the lower of cost (\$90) or market (\$74) principle so the recorders should be recorded at the lower amount of \$74.

100.Answer: A

IFRS rules require inventory to be valued at the lower of cost or net realizable value (NRV). NRV is calculated as estimated sales price less estimated selling costs. At December 31, 20X8, $\text{NRV} = \$740,000 - \$50,000 = \$690,000$. Since cost is \$720,000, then the lower of cost or NRV is \$690,000 and a \$30,000 writedown is required.

At January 31, 20X9, $NRV = \$810,000 - \$50,000 = \$760,000$. Under IFRS, when inventory recovers in value after being written down, it may be "written up" and a gain recognized in the income statement. The amount of such gain, however, is limited to the amount previously recognized as a loss. Under IFRS it is not permissible to report inventory on the balance sheet at an amount that exceeds original cost, except in the case of some agricultural and mineral products. Since cost is \$720,000, the lower of cost of NRV is \$720,000.

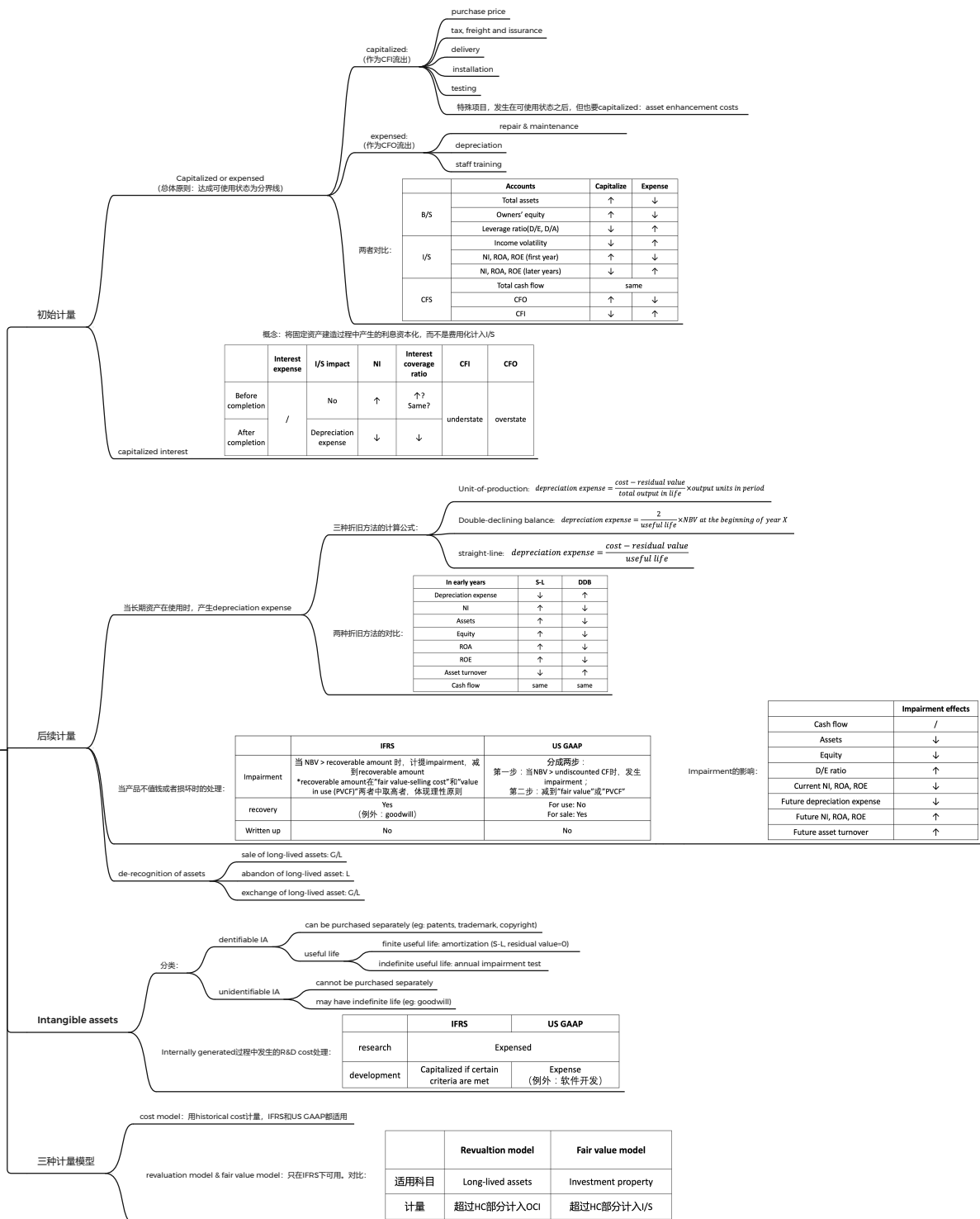
101.Answer: C

The ending LIFO reserve is \$70 and the beginning LIFO reserve is \$80.
 $FIFO\ COGS = LIFO\ COGS - (ending\ LIFO\ reserve - beginning\ LIFO\ reserve)$
 $\$800 - (\$70 - \$80) = \810

102.Answer: A

In periods of decreasing prices, LIFO results in lower COGS, higher taxes, higher net income, higher inventory balances, higher working capital, and lower cash flows compared to FIFO.

Financial reporting and analysis (L1)
R26 long-lived assets



R26 LONG-LIVED ASSETS

LOS 26.a: Distinguish between costs that are capitalized and costs that are expensed in the period in which they are incurred.

103. Capitalizing interest costs related to a company's construction of assets for its own use is required by:
- A. IFRS only.
 - B. both IFRS and U.S. GAAP.
 - C. U.S. GAAP only.

LOS 26.b: Compare the financial reporting of the following types of intangible assets: purchased, internally developed, acquired in a business combination.

104. Varin, Inc. purchases franchise rights with an estimated useful life of ten years and a trademark that can be renewed every five years for a nominal fee. Under IFRS, Varin will recognize amortization expense on:
- A. only one of these assets.
 - B. neither of these assets.
 - C. both of these assets.
105. Which of the following items is least likely an example of an intangible asset with an indefinite life?
- A. Trademarks that can be renewed at minimal cost.
 - B. Acquired patents.
 - C. Goodwill.

LOS 26.c: Explain and evaluate how capitalizing versus expensing costs in the period in which they are incurred affects financial statements and ratios.

106. Meyer Investment Advisory and Smith Brothers Investments are operationally identical except that Meyer capitalizes some costs that Smith expenses. Compared to Smith, Meyer is likely to have:

- A. higher debt/equity ratio and higher debt/assets ratio.
- B. higher cash flows from operations and lower cash flow from investing.
- C. lower profitability (ROA and ROE) in early years and higher in later years.

107. Compared to firms that expense costs, firms that capitalize expenses will have:

- A. lower cash flow from operations.
- B. lower variability of income.
- C. higher leverage ratios.

LOS 26.d: Describe the different depreciation methods for property, plant, and equipment and calculate depreciation expense.

108. Novak, Inc. owns equipment with a historical cost of \$20,000, a useful life of 5 years, and an estimated salvage value of \$5,000. Using the double declining balance method, depreciation expense in Year 3 for this equipment is:

- A. \$2,200.00
- B. \$3,000.00
- C. \$2,880.00

LOS 26.e: Describe how the choice of depreciation method and assumptions concerning useful life and residual value affect depreciation expense, financial statements, and ratios.

109. Which of the following statements comparing straight-line depreciation methods to alternative depreciation methods is least accurate? Companies that use:

- A. straight-line depreciation methods will have higher book values for the assets on the balance sheet than companies that use accelerated depreciation.

- B. accelerated depreciation methods for tax purposes will decrease the amount of taxes paid in early years.
- C. accelerated depreciation methods will have lower asset turnover ratios than if they used straight line depreciation.

LOS 26.f: Describe the different amortisation methods for intangible assets with finite lives and calculate amortisation expense.

110. Intangible assets with finite useful lives are:
- A. amortized over their actual lives.
 - B. not amortized, but are tested for impairment at least annually.
 - C. amortized over their expected useful lives.

LOS 26.g: Describe how the choice of amortisation method and assumptions concerning useful life and residual value affect amortisation expense, financial statements, and ratios.

LOS 26.h: Describe the revaluation model.

111. For a firm to use the revaluation model for balance sheet reporting of long-lived assets:
- A. the firm must choose which assets of each type to revalue, and which to report at cost
 - B. the firm must report under U.S. GAAP.
 - C. an active market must exist for the assets.
112. Dubois Company bought land for company use five years ago for €2 million and presents its balance sheet value as €2.2 million. If the fair value of the land decreases to €1.8 million, Dubois will:
- A. decrease shareholders' equity by €400,000 but will not recognize a loss.
 - B. recognize a loss of €200,000 and decrease shareholders' equity by €400,000.
 - C. recognize a loss of €400,000 and decrease shareholders' equity by €200,000.

LOS 26.i: Explain the impairment of property, plant, and equipment and intangible assets.

113. An analyst determined the following information concerning Franklin, Inc.'s stamping machine:

Acquired seven years ago for \$22 million Straight line method used for depreciation

Useful life estimated to be 12 years

Salvage value originally estimated to be \$4 million

The stamping machine is expected to generate \$1,500,000 per year for five more years and will then be sold for \$1,000,000. Under U.S. GAAP, the stamping machine is:

- A. impaired because expected salvage value has declined.
- B. not impaired.
- C. impaired because its carrying value exceeds expected future cash flows.

114. Under U.S. GAAP, an asset is impaired when:

- A. the present value of future cash flows exceeds the carrying amount of the asset.
- B. accumulated depreciation plus salvage value exceeds acquisition costs.
- C. the firm can no longer fully recover the carrying amount of the asset.

LOS 26.j: Explain the derecognition of property, plant, and equipment and intangible assets.

115. Felker Inc. owns a piece of specialized machinery. The original cost of the machinery was \$500,000 and to date there is an accumulated depreciation balance of \$140,000. Which of the following will Felker recognize on its income statement if it sells the machinery for \$400,000?

- A. Loss of \$360,000.
- B. Gain of \$40,000.
- C. Loss of \$100,000.

LOS 26.k: Explain and evaluate how impairment, revaluation, and derecognition of property, plant, and equipment and intangible assets affect financial statements and ratios.

116. A firm revalues its long-lived assets upward. All other things equal, which of the following financial impacts is least likely to occur?
- A. Higher earnings in the revaluation period.
 - B. Lower solvency ratios.
 - C. Higher profitability in the periods after revaluation.

LOS 26.l: Describe the financial statement presentation of and disclosures relating to property, plant, and equipment and intangible assets.

117. As part of a major restructuring of business units, General Security (an industrial conglomerate operating solely in the U.S. and subject to U.S. GAAP) recognizes significant impairment losses. The Investor Relations group is preparing an informational packet for shareholders, employees, and the media. Which of the following statements is least accurate?
- A. During the year of the write-downs, retained earnings and deferred taxes will decrease.
 - B. The write-downs are reported as a component of income from continuing operations.
 - C. Write-downs taken on asset values can be reversed in later years if market conditions improve.

LOS 26.m: Analyze and interpret financial statement disclosures regarding property, plant, and equipment and intangible assets.

LOS 26.n: Compare the financial reporting of investment property with that of property, plant, and equipment.

118. A manufacturing firm shuts down production at one of its plants and offers the facility for rent. Based on the market for similar properties, the firm determines that the fair value of the plant is €500,000 more than its carrying value. If this firm uses the cost model for plant and equipment and the fair value

model for investment property, should it recognize a gain on its income statement?

- A. No, because the increase in value does not reverse a previously recognized loss.
- B. Yes, because the plant will be reclassified as investment property.
- C. No, because the firm must continue to use the cost model for valuation of this asset.

119. The revaluation model for investment property is permitted under:

- A. IFRS, but not U.S. GAAP.
- B. both IFRS and U.S. GAAP.
- C. neither IFRS nor U.S. GAAP.



R26 LONG-LIVED ASSETS

甄选题答案

R26 LONG-LIVED ASSETS

LOS 26.a: Distinguish between costs that are capitalized and costs that are expensed in the period in which they are incurred.

103.Answer: B

Both U.S. GAAP and IFRS require companies to capitalize the interest that accrues during the construction of capital assets for their own use.

LOS 26.b: Compare the financial reporting of the following types of intangible assets: purchased, internally developed, acquired in a business combination.

104.Answer: A

Acquired intangible assets with finite expected useful lives are amortized. Intangible assets with indefinite lives are not amortized but are tested at least annually for impairment. Renewal at a nominal cost means the trademark should be treated as an asset with an indefinite life.

105.Answer: B

Acquired patents are most likely purchased with the intent to use over a specific period of time and therefore would be an example of an intangible asset with a finite life. Goodwill, by definition, is an intangible asset with an indefinite life. Trademarks that can be renewed at minimal cost are also considered to be intangible assets with infinite lives.

LOS 26.c: Explain and evaluate how capitalizing versus expensing costs in the period in which they are incurred affects financial statements and ratios.

106.Answer: B

The net cash flow remains the same regardless of which accounting method is used. But components of cash flows change and cash flows from operations will be higher when costs are capitalized and lower when expensed. On the other hand, cash flows from investing will be lower when costs are capitalized and higher when expensed. Compared to firms expensing costs, firms that capitalize costs will have smaller debt to equity ratios and higher initial ROAs, but lower ROAs in the future.

107.Answer: B

Firms that capitalize expenses have less variability of net income because the capitalized expense becomes an asset that is depreciated over years instead of all at once which happens when costs are expensed. Capitalizing expenses will result in higher cash flows from operations because capitalizing an expense becomes an investing cash flow instead of an operating cash flow which occurs when expenditures are expensed. Firms that capitalize expenses have lower leverage ratios because assets and equity are increased so any leverage ratio that have assets and equity in the denominator will decrease.

LOS 26.d: Describe the different depreciation methods for property, plant, and equipment and calculate depreciation expense.

108.Answer: A

DDB depreciation in each year is $\frac{2}{5}$ of the carrying value at the beginning of the year, until the carrying value reaches the estimated salvage value.

Year 1 DDB depreciation = $\$20,000 \times \frac{2}{5} = \$8,000$ Carrying value = $\$20,000 - \$8,000 = \$12,000$

Year 2 DDB depreciation = $\$12,000 \times \frac{2}{5} = \$4,800$ Carrying value = $\$12,000 - \$4,800 = \$7,200$

Year 3 DDB depreciation = $\$7,200 \times \frac{2}{5} = \$2,880$

Because $\$7,200 - \$2,880 = \$4,320$ would depreciate the equipment below its salvage value, depreciation in Year 3 is limited to $\$7,200 - \$5,000 = \$2,200$.

LOS 26.e: Describe how the choice of depreciation method and assumptions concerning useful life and residual value affect depreciation expense, financial statements, and ratios.

109.Answer: C

Accelerated depreciation will lead to lower book values and hence a higher asset turnover ratio.

LOS 26.f: Describe the different amortisation methods for intangible assets with finite lives and calculate amortisation expense.

110.Answer: C

Intangible assets with finite lives are amortized over their expected useful lives, which is an estimate. Actual lives of intangible assets are often not known in advance. Intangible assets with infinite lives are not amortized, but are tested for impairment at least annually.

LOS 26.g: Describe how the choice of amortisation method and assumptions concerning useful life and residual value affect amortisation expense, financial statements, and ratios.

LOS 26.h: Describe the revaluation model.

111.Answer: C

Under IFRS, a firm may use the revaluation model for long-lived assets that have an active market which can be used to determine the fair value of the assets. The firm must use the same model for all assets of a similar type. U.S. GAAP reporting firms must use the cost model for long-lived assets.

112.Answer: B

Because the land is valued above its historical cost on the balance sheet, Dubois is using the revaluation model. The land's revaluation up to €2.2 million would have been reflected in shareholders' equity with a revaluation surplus of €200,000. The decrease in fair value to €1.8 million will reduce the revaluation

surplus to zero, and the amount of the writedown below historical cost (€2 million – €1.8 million = €200,000) will be recognized as a loss on Dubois's income statement. This loss, combined with the removal of the revaluation surplus, will decrease shareholders' equity by €400,000. Note that the land was purchased for company use and therefore would not be classified as investment property.

LOS 26.i: Explain the impairment of property, plant, and equipment and intangible assets.

113.Answer: C

The carrying value of the stamping machine is its cost less accumulated depreciation. Depreciation taken through 7 years was $(\$22,000,000 - \$4,000,000) / 12 \times 7 = \$10,500,000$, so carrying value is $\$22,000,000 -$

$\$10,500,000 = \$11,500,000$. Because the $\$11,500,000$ carrying value is more than expected future cash flows of $(5 \times \$1,500,000) + \$1,000,000 = \$8,500,000$, the stamping machine is impaired.

114.Answer: C

An asset is impaired if its future cash flows (undiscounted) are less than its carrying value.

LOS 26.j: Explain the derecognition of property, plant, and equipment and intangible assets.

115.Answer: B

With a sale of an asset to a third party, the difference between the proceeds and carrying value is

reported as a gain or loss on the income statement. The carrying value is $\$360,000$, which equals the original cost ($\$500,000$) less the accumulated depreciation ($\$140,000$). Therefore, the gain is equal to $\$40,000$ ($\$400,000$ proceeds less $\$360,000$ carrying value).

LOS 26.k: Explain and evaluate how impairment, revaluation, and derecognition of property, plant, and equipment and intangible assets affect financial statements and ratios.

116.Answer: C

Because the asset has now been increased to a higher depreciable base, there will now be higher depreciation expense and therefore, lower profitability in the periods after revaluation. There could be higher earnings in the revaluation period because there may be impairment losses that can be reversed on the income statement. Otherwise, there will be an adjustment to earnings through other comprehensive income. Solvency ratios (i.e. debt to equity) will decrease since the increase in assets will be balanced by an increase in equity. Higher denominators and unchanged numerators will result in lower solvency ratios.

LOS 26.l: Describe the financial statement presentation of and disclosures relating to property, plant, and equipment and intangible assets.

117.Answer: C

Impairments cannot be restored under U.S. GAAP. Both remaining statements are correct.

LOS 26.m: Analyze and interpret financial statement disclosures regarding property, plant, and equipment and intangible assets.

LOS 26.n: Compare the financial reporting of investment property with that of property, plant, and equipment.

118.Answer: A

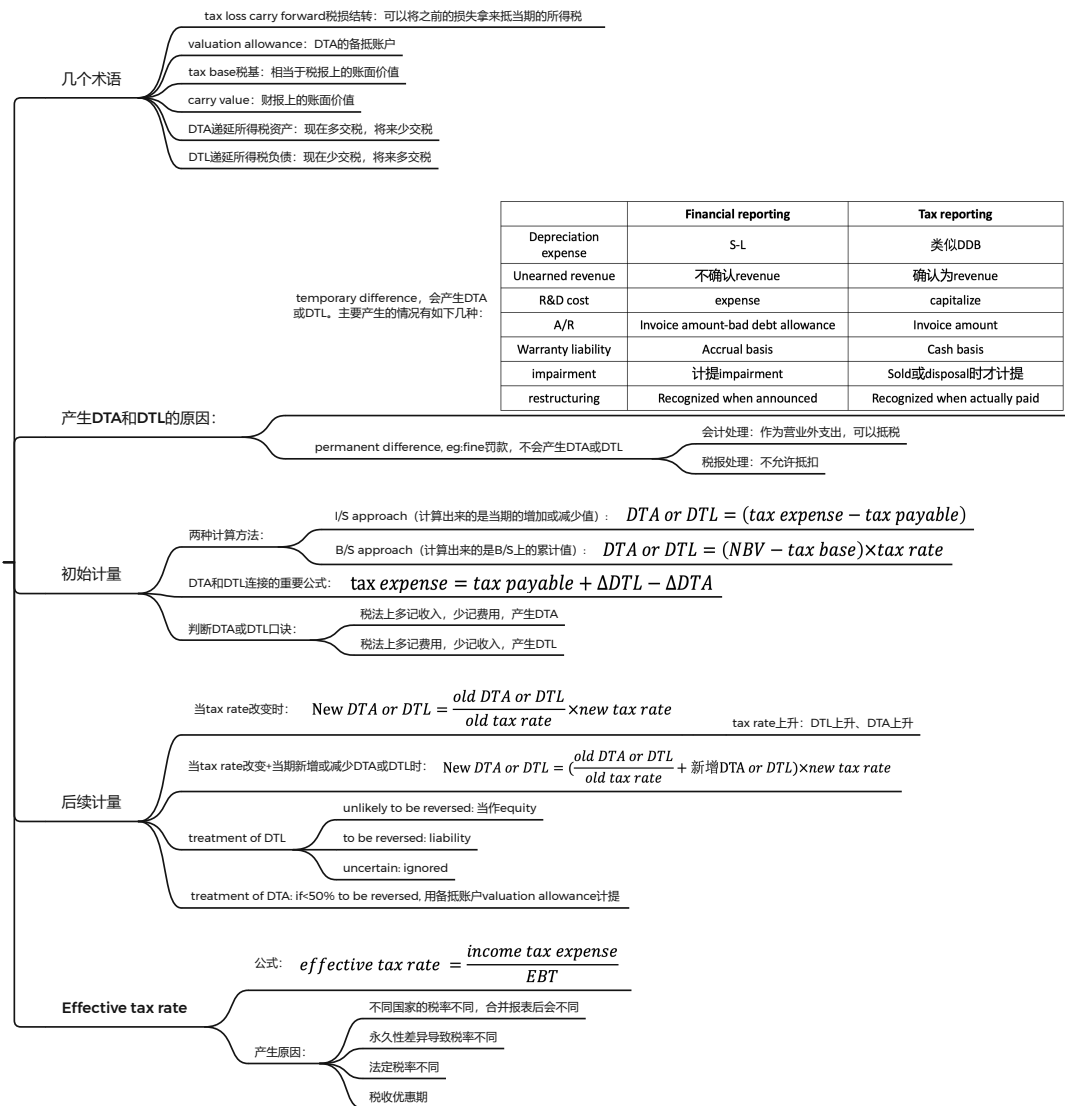
According to IFRS, property held for the purpose of earning rental income is classified as investment property. However, when a property is transferred from owner-occupied to investment property, a firm using the fair value model must treat any increase in the property's value as a revaluation. That is, the firm may only recognize a gain on the income statement to the extent that it reverses a previously recognized loss.

119.Answer: C



For long-lived assets classified as investment property, IFRS allows either the cost model or the fair value model. The revaluation model is permitted for long-lived assets that are not classified as investment property. U.S. GAAP only permits the cost model for valuation of long-lived assets and does not identify investment property as a specific subset of long-lived assets.

**Financial reporting and analysis (L1)
R27 income tax**



R27 INCOME TAXES

LOS 27.a: Describe the differences between accounting profit and taxable income and define key terms, including deferred tax assets, deferred tax liabilities, valuation allowance, taxes payable, and income tax expense.

120. Which of the following statements is CORRECT? Income tax expense:

- A. includes taxes payable and deferred income tax expense.
- B. is the reported net of deferred tax assets and liabilities.
- C. is the amount of taxes due to the government.

121. An analyst gathered the following information about a company:

Taxable income = \$100,000. Pretax income = \$120,000. Current tax rate = 20%.

Assuming the difference between taxable income and pretax income will reverse in the future, the effect these events on the company's financial statements will be to report income tax expense of:

- A. \$22,000 with no change in deferred tax items.
- B. \$24,000 and an addition to deferred tax liabilities of \$4,000.
- C. \$24,000 and a decrease in deferred tax assets of \$4,000.

LOS 27.b: Explain how deferred tax liabilities and assets are created and the factors that determine how a company's deferred tax liabilities and assets should be treated for the purposes of financial analysis.

122. A company purchased a new pizza oven for \$12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at \$7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. For this question ignore all expenses other than depreciation.

What is the tax payable for year one?

- A. \$1,909.
- B. \$1,130.
- C. \$779.

123. A health care company purchased a new MRI machine on 1/1/X3. At year-end the company recorded straight-line depreciation expense of \$75,000 for book purposes and accelerated depreciation expense of \$94,000 for tax purposes. Management estimates warranty expense related to corrective eye surgeries performed in 20X3 to be \$250,000. Actual warranty expenses of \$100,000 were incurred in 20X3 related to surgeries performed in 20X2. The company's tax rate for the current year was 35%, but a tax rate of 37% has been enacted into law and will apply in future periods. Assuming these are the only relevant entries for deferred taxes, the company's recorded changes in deferred tax assets and liabilities on 12/31/X3 are closest to:

| | DTA | DTL |
|----|----------|---------|
| A. | \$55,500 | \$7,030 |
| B. | \$52,500 | \$6,650 |
| C. | \$55,500 | \$6,650 |

124. If a firm uses accelerated depreciation for tax purposes and straight-line depreciation for financial reporting, which of the following results is least likely?

- A. A temporary difference will result between tax and financial reporting.
- B. Income tax expense will be greater than taxes payable.
- C. A permanent difference will result between tax and financial reporting.

125. Which of the following statements regarding differences between taxable and pretax income is most accurate? Differences between taxable and pretax income that:

- A. increase or decrease the effective tax rate are called temporary differences.

- B. are not reversed for five or more years are called permanent differences.
- C. result in deferred tax assets or liabilities are called temporary differences.

126. The Puchalski Company reported the following:

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---------------------|---------|---------|--------|---------|
| Income before taxes | \$1,000 | \$1,000 | \$900 | \$800 |
| Taxable income | \$800 | \$900 | \$900 | \$1,000 |

Puchalski has no deferred tax asset or liability prior to Year 1. If the tax rate is 40%, what is the amount of the deferred tax asset or liability reported at the end of Year 3?

- A. Liability of \$120.
- B. Asset of \$80.
- C. Asset of \$120.

LOS 27.c: Calculate the tax base of a company's assets and liabilities.

127. Camphor Associates uses accrual basis for financial reporting purposes and cash basis for tax purposes. Cash collections from customers is \$238,000, and accrued revenue is only \$188,000. Assume expenses at 50% in both cases (i.e., \$119,000 on cash basis and \$94,000 on accrual basis), and a tax rate of 34%. What is the deferred tax asset/liability in this case? A deferred tax:

- A. liability of \$8,500.
- B. asset of \$8,500.
- C. asset of \$48,960.

LOS 27.d: Calculate income tax expense, income taxes payable, deferred tax assets, and deferred tax liabilities, and calculate and interpret the adjustment to the financial statements related to a change in the income tax rate.

LOS 27.e: Evaluate the effect of tax rate changes on a company's financial statements and ratios.

128. Habel Inc. owns equipment with a tax base of \$400,000 and a carrying value of \$600,000. Habel also has a tax loss carryforward of \$200,000 that is expected to be utilized in the foreseeable future. Deferred tax items on the balance sheet are based on a tax rate of 30%. Based only on this information, an increase in future tax rates to 35% will cause Habel's total liabilities-to-equity ratio to:
- A. increase.
 - B. decrease.
 - C. remain unchanged.

LOS 27.f: Distinguish between temporary and permanent differences in pre-tax accounting income and taxable income.

129. A firm needs to adjust its financial statements for a change in the tax rate. Taxable income is \$80,000 and pretax income is \$120,000. The current tax rate is 50%, and the new tax rate is 40%. The effect on taxes payable of adjusting the tax rate is closest to:
- A. \$16,000.
 - B. \$4,000.
 - C. \$8,000.
130. For the year ended 31 December 2004, Pick Co's pretax financial statement income was \$400,000 and its taxable income was \$300,000. The difference is due to the following:
- | | | | | | |
|--|-----------|--|------------|-------|-----------|
| Interest on tax-exempt municipal bonds | \$140,000 | Premium expense on key person life insurance | \$(40,000) | Total | \$100,000 |
|--|-----------|--|------------|-------|-----------|
- Pick's statutory income tax rate is 30 percent. In its 2004 income statement, what amount should Pick report as current provision for tax payable?
- A. \$90,000.
 - B. \$120,000.
 - C. \$102,000.

LOS 27.g: Describe the valuation allowance for deferred tax assets—when it is required and what effect it has on financial statements.

131. Which of the following best describes valuation allowance? Valuation allowance is a reserve:
- A. created when deferred tax assets are greater than deferred tax liabilities.
 - B. against deferred tax liabilities based on the likelihood that those liabilities will be paid.
 - C. against deferred tax assets based on the likelihood that those assets will not be realized.
132. Which of the following statements best justifies analyst scrutiny of valuation allowances?
- A. If differences in taxable and pretax incomes are never expected to reverse, a company's equity may be understated.
 - B. Increases in valuation allowances may be a signal that management expects earnings to improve in the future.
 - C. Changes in valuation allowances can be used to manage reported net income.
133. For analytical purposes, if a deferred tax liability is expected to not be reversed, it should be treated as a(n):
- A. immaterial amount and ignored.
 - B. liability.
 - C. an addition to equity.
134. A firm purchased a piece of equipment for \$6,000 with the following information provided:
- Revenue will increase by \$15,000 per year.
 - The equipment has a 3-year life expectancy and no salvage value. The firm's tax rate is 30%.
 - Straight-line depreciation is used for financial reporting and double declining is used

for tax purposes.

What will the firm report for deferred taxes on the balance sheet for years 1 and 2?

| | <u>Year 1</u> | <u>Year 2</u> |
|----|---------------|---------------|
| A. | \$3,900 | \$3,900 |
| B. | \$3,300 | \$4,100 |
| C. | \$600 | \$400 |

LOS 27.h: Explain recognition and measurement of current and deferred tax items.

135. A company purchased a new pizza oven for \$12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at \$7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. For this question ignore all expenses other than depreciation.

What is the deferred tax liability as of the end of year one?

- A. \$1,909.
- B. \$1,129.
- C. \$780.

136. A dance club purchases new sound equipment for \$25,352. It will work for 5 years and has no salvage value. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. Annual revenues are constant at \$14,384 over these five years. If the tax rate for years 4 and 5 changes from 41% to 31%, what is the deferred tax liability as of the end of year 3?

- A. \$3,144.

- B. \$1,039.
- C. \$2,948.

LOS 27.i: Analyze disclosures relating to deferred tax items and the effective tax rate reconciliation and explain how information included in these disclosures affects a company's financial statements and financial ratios.

137. Laser Tech has net temporary differences between tax and book income resulting in a deferred tax liability of 10. \$30.6 million. According to U.S. GAAP, an increase in the tax rate would have what impact on deferred taxes and net income, respectively:

Deferred Taxes Net Income

- A. No effect Decrease
- B. Increase Decrease
- C. Increase No effect

LOS 27.j: Identify the key provisions of and differences between income tax accounting under International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (GAAP).



R27 INCOME TAXES

甄选题答案

R27 INCOME TAXES

LOS 27.a: Describe the differences between accounting profit and taxable income and define key terms, including deferred tax assets, deferred tax liabilities, valuation allowance, taxes payable, and income tax expense.

120.Answer: A

Income tax expense is defined as expense resulting from current period pretax income. It includes taxes payable and deferred income tax expense. Taxes payable are the amount of taxes due the government.

121.Answer: B

Deferred tax liability = $(120,000 - 100,000) \times 0.2 = 4,000$

Tax expense = current tax rate \times taxable income + change in deferred tax liability $0.2 \times 100,000 + 4,000 = 24,000$

LOS 27.b: Explain how deferred tax liabilities and assets are created and the factors that determine how a company's deferred tax liabilities and assets should be treated for the purposes of financial analysis.

122.Answer: B

Tax payable for year 1 is = $[\$7,192 - (\$12,676 \times 0.35)] \times 0.41 = \$1,130$.

123.Answer: A

DTL = (tax depreciation – financial statement depreciation) \times future tax rate = $(\$94,000 - \$75,000) \times 37\% = \$7,030$.

DTA = (estimated warranty expense – actual warranty expense) \times future tax rate = $(\$250,000 - \$100,000) \times 37\% = \$55,500$.

124. Answer: C

A permanent difference between tax and financial reporting is a difference that is expected to not reverse itself. Under normal circumstances, the effects of the different depreciation methods will reverse.

125. Answer: C

Temporary differences between taxable income (for tax reporting) and pretax income (for financial statement reporting) result in deferred tax assets or liabilities. Permanent differences result in a company's effective tax rate being different from the statutory tax rate. There is no time limit on temporary differences to reverse.

126. Answer: A

| | Year 1 | Year 2 | Year 3 |
|------------------------|--------|--------|--------|
| Income tax expense | \$400 | \$400 | \$360 |
| Taxes paid | \$320 | \$360 | \$360 |
| Deferred tax liability | \$80 | \$120 | \$120 |

LOS 27.c: Calculate the tax base of a company's assets and liabilities.

127. Answer: B

Since taxable income (\$119,000) exceeds pretax income (\$94,000), Camphor will have a deferred tax asset of $\$8,500 = [(\$119,000 - \$94,000)(0.34)]$.

LOS 27.d: Calculate income tax expense, income taxes payable, deferred tax assets, and deferred tax liabilities, and calculate and interpret the adjustment to the financial statements related to a change in the income tax rate.

LOS 27.e: Evaluate the effect of tax rate changes on a company's financial statements and ratios.

128.Answer: A

The \$200,000 difference between the tax base and the carrying value of the equipment gives rise to a taxable temporary difference that leads to a deferred tax liability of $\$200,000 \times 30\% = \$60,000$. The tax loss carryforward of \$200,000 leads to a deferred tax asset of $\$200,000 \times 30\% = \$60,000$.

Because these amounts are equal, the increase in the tax rate will increase the associated DTA and DTL by the same amounts, leaving equity unchanged. Therefore, the total liabilities-to-equity ratio will increase because of the increase in the deferred tax liability.

LOS 27.f: Distinguish between temporary and permanent differences in pre-tax accounting income and taxable income.

129.Answer: C

"Pretax income" denotes earnings before taxes for financial reporting. "Taxable income" is earnings before taxes for computing taxes payable, where taxes payable refers to the actual tax liability to the government. Since taxable income is \$80,000, the difference in taxes payable is $(\$80,000)(0.5) - (\$80,000)(0.4) = \$8,000$.

130.Answer: A

According to SFAS 109, Current provision = statutory rate \times taxable income $30\% =$ Taxes Payable / $\$300,000 = 0.30 \times \$300,000$

= \$90,000

LOS 27.g: Describe the valuation allowance for deferred tax assets—when it is required and what effect it has on financial statements.

131.Answer: C

Valuation allowance is a reserve against deferred tax assets based on the likelihood that those assets will not be realized. Deferred tax assets reflect the difference in tax expense and taxes payable that are expected to be recovered from future operations.

132.Answer: C

A valuation allowance is a contra account (offset) against deferred tax assets that reflects the likelihood that the deferred tax assets will never be realized. Changes in the valuation allowance have a direct impact on reported income. Because management has discretion with regard to the amount and timing of a valuation allowance, changes in the valuation allowance give management significant opportunity to manage earnings.

133.Answer: C

If deferred tax liabilities are expected to never reverse, they should be treated as equity for analytical purposes.

134.Answer: C

Using

DDB:

| | Yr. 1 | Yr. 2 |
|---------|--------|--------|
| Revenue | 15,000 | 15,000 |
| Dep. | 4,000 | 1,333 |
| Taxable | 11,000 | 13,667 |

| | | |
|------------|--------|--------|
| Inc | | |
| Taxes Pay | 3,300 | 4,100 |
| Using SL: | | |
| | Yr. 1 | Yr. 2 |
| Revenue | 15,000 | 15,000 |
| Dep. | 2,000 | 2,000 |
| Pretax Inc | 13,000 | 13,000 |
| Tax Exp | 3,900 | 3,900 |

Deferred taxes year 1 = 3,900 – 3,300 = 600

Deferred taxes year 2 = 3,900 – 4,100 + previously deferred taxes = -200 + 600 = 400

LOS 27.h: Explain recognition and measurement of current and deferred tax items.

135.Answer: C

Pretax Income = \$7,192 – \$2,535 = \$4,657 Taxable Income = \$7,192 – \$4,437 = \$2,755

Deferred Tax liability = (\$4,657 – \$2,755)(0.41) = \$780. Alternative solution:

Difference in depreciation at the end of year one is \$12,676 × (0.35 – 0.20) = \$1,901

Deferred tax liability = difference in depreciation × tax rate = \$1,901 × 0.41 = \$780.

136.Answer: A

Straight-line depreciation = \$25,352 / 5 = \$5,070. Income (years 1, 2, and 3) using straight-line depreciation

= \$14,384 – \$5,070 = \$9,314.

Accelerated depreciation (years 1 and 2) = 0.35(\$25,352) = \$8,873. Income (years 1 and 2) = \$14,384 –

\$8,873 = \$5,511.

Accelerated depreciation (year 3) = 0.3(\$25,352) = \$7,606. Income (year 3) = \$14,384 – \$7,606 = \$6,778. Cumulative difference in income at end of year 3 = 3(\$9,314) – [2(\$5,511) + \$6,778] = \$10,142.

DTL value at new tax rate = $0.31(\$10,142) = \$3,144$.

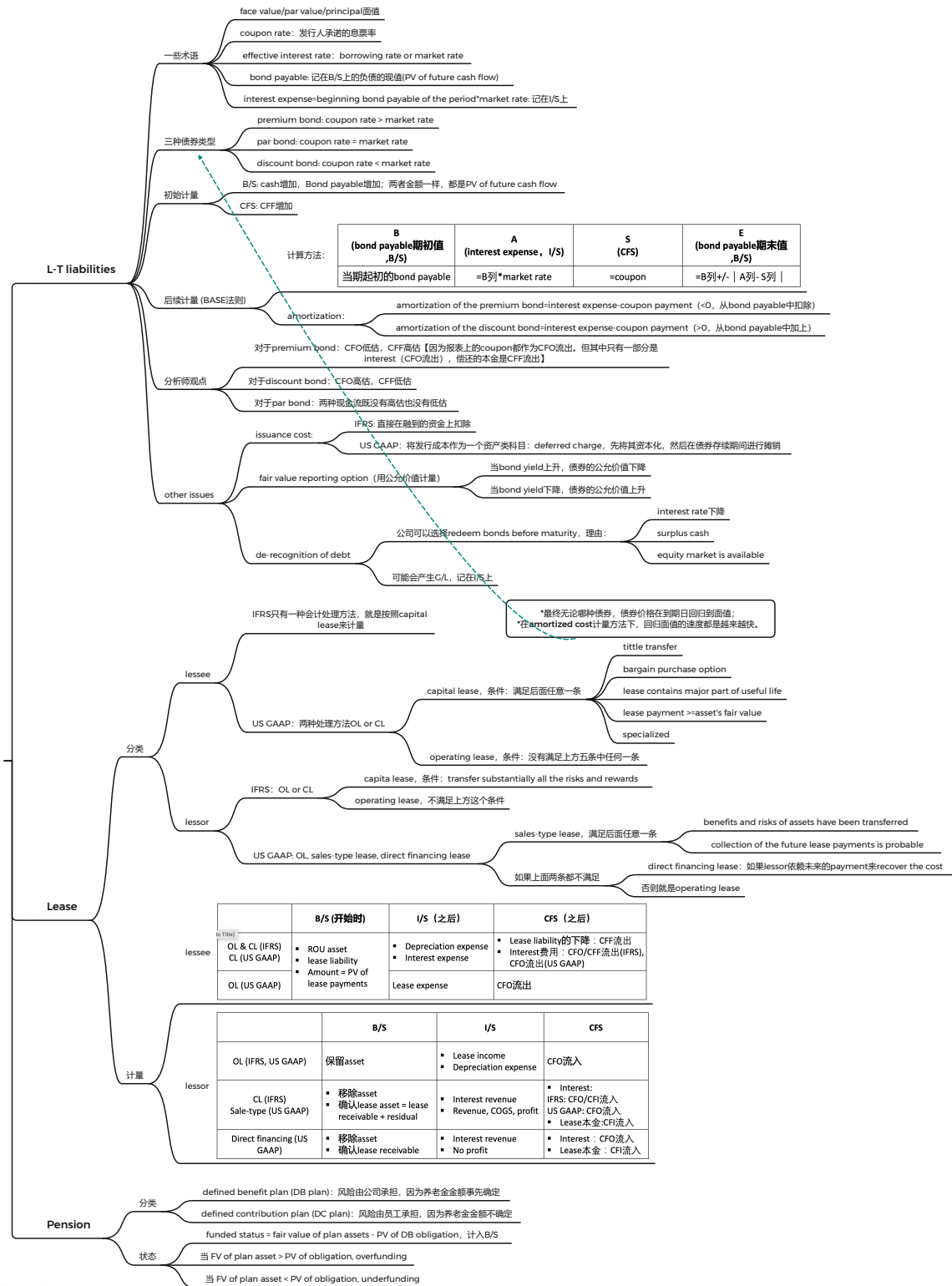
LOS 27.i: Analyze disclosures relating to deferred tax items and the effective tax rate reconciliation and explain how information included in these disclosures affects a company's financial statements and financial ratios.

137.Answer: B

If tax rates rise then deferred tax liabilities will also rise. The increase in deferred tax liabilities will increase the current tax expense, and if expenses are increasing the net income will decrease.

LOS 27.j: Identify the key provisions of and differences between income tax accounting under International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (GAAP).

Financial reporting and analysis (LI)
R28 L-T liabilities & lease



R28 NON-CURRENT (LONG- TERM) LIABILITIES

LOS 28.a: Determine the initial recognition, initial measurement and subsequent measurement of bonds.

LOS 28.b: Describe the effective interest method and calculate interest expense, amortisation of bond discounts/premiums, and interest payments.

138. A bond is issued at the end of the year 20X0 with an 8% semiannual coupon rate, 5 years to maturity, and a par value of \$1,000. The bond's yield at issuance is 10%. Using the effective interest method, if the yield has decreased to 9% at the end of the year 20X1, the balance sheet liability for the bond is closest to:

- A. 923.
- B. 967.
- C. 935.

139. A firm issues a \$5 million zero coupon bond with a maturity of four years when market rates are 8%. Assume semi-annual compounding.

What is the firm's initial liability and the value of the liability in six months?

Initial Liability Liability in 6
months

- A. \$3,653,451 \$3,799,589
- B. \$3,675,149 \$3,675,149
- C. \$5,000,000 \$5,000,000

140. When the market rate is greater than the coupon rate, the bond is called a:

- A. premium bond.
- B. par bond.
- C. discount bond.

141. Which of the following statements for a bond issued with a coupon rate above the market rate of interest is least accurate?
- A. The bond will be shown on the balance sheet at the premium value.
 - B. The associated interest expense will be lower than that implied by the coupon rate.
 - C. The value of the bond will be amortized toward zero over the life of the bond.
142. On December 31, 2004, Newberg, Inc. issued 5,000 \$1,000 face value seven percent bonds to yield six percent. The bonds pay interest semi-annually and are due December 31, 2011. On its December 31, 2005, income statement, Newberg should report interest expense of:
- A. \$350,000.
 - B. \$316,448.
 - C. \$300,000.
143. A \$1,000 bond is issued with an 8% semiannual coupon rate and 5 years to maturity when market interest rates are 10%. What is the initial liability?
- A. 923.
 - B. 855.
 - C. 1023.

LOS 28.c: Explain the derecognition of debt.

LOS 28.d: Describe the role of debt covenants in protecting creditors.

144. Larry Purcell, an entry-level fixed income analyst at Knowlton & Smeades LLC, was discussing debt covenants with his supervisor, Andy Holzman. During the meeting Purcell made the following statements regarding bond covenants:
- Statement 1: If a firm violates any of its debt covenants, the company will immediately go into bankruptcy and the creditors of the firm will take over the liquidation of its assets.

Statement 2: Debt covenants are important in evaluating a firm's credit risk and to better understand how the restrictions of the covenants can affect the firm's growth prospects and choice of accounting policies.

With respect to these statements:

- A. both are incorrect.
- B. both are correct.
- C. only one is correct.

LOS 28.e: Describe the financial statement presentation of and disclosures relating to debt.

145. Which of the following is least likely to be disclosed in the financial statements of a bond issuer?
- A. Collateral pledged as security in the event of default.
 - B. The market rate of interest on the balance sheet date.
 - C. The amount of debt that matures in each of the next five years.

LOS 28.f: Explain motivations for leasing assets instead of purchasing them.

LOS 28.g: Explain the financial reporting of leases from a lessee's perspective.

146. Under U.S. GAAP, a lessee must recognize a balance sheet liability for:
- A. both finance leases and operating leases.
 - B. finance leases, but not operating leases.
 - C. operating leases, but not finance leases.
147. An IFRS-reporting airline leases a new airplane from its manufacturer for ten years. For financial reporting, the airline:
- A. must record an asset and a liability on its balance sheet.
 - B. will only record an asset and a liability on its balance sheet if it classifies the lease as a finance lease.

- C. must disclose the present value of the future lease payments if it classifies the lease as an operating lease.

LOS 28.h: Explain the financial reporting of leases from a lessor's perspective.

148. Crawford Corporation is a lessor. Crawford classifies a lease as a sales-type lease. It is most likely that Crawford:
- A. has significant doubt about collecting the lease payments.
 - B. retains the leased asset on its balance sheet.
 - C. reports under U.S. GAAP.
149. Under IFRS, a lessor retains the leased asset on its balance sheet for:
- A. finance leases, but not operating leases.
 - B. neither finance leases not operating leases.
 - C. operating leases, but not finance leases.

LOS 28.i: Compare the presentation and disclosure of defined contribution and defined benefit pension plans.

150. An employer offers a defined benefit pension plan and a defined contribution pension plan. The employer's balance sheet is most likely to present an asset or liability related to:
- A. the defined benefit plan.
 - B. both of these pension plans.
 - C. the defined contribution plan.

LOS 28.j: Calculate and interpret leverage and coverage ratios.

151. Other things equal, and ignoring issuance costs, a firm that raises cash by issuing a new bond is most likely to:
- A. decrease its leverage ratios and increase its coverage ratios.
 - B. increase its leverage ratios and decrease its coverage ratios.



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C. increase its leverage ratios and increase its coverage ratios.

R28 NON-CURRENT (LONG- TERM) LIABILITIES
甄选题答案

R28 NON-CURRENT (LONG- TERM) LIABILITIES

LOS 28.a: Determine the initial recognition, initial measurement and subsequent measurement of bonds.

LOS 28.b: Describe the effective interest method and calculate interest expense, amortisation of bond discounts/premiums, and interest payments.

138.Answer: C

Using the effective interest method, the value of the liability is calculated using the bond's yield at issuance. At the end of 20x1 the bond will have 8 semiannual periods remaining until maturity.

$N = 8; I/Y = 10 / 2 = 5; PMT = 8 / 2 \times 1,000 = 40; FV = 1,000; CPT PV = -935.37.$

139.Answer: A

The initial liability is: $N = 8, I/Y = 4\%, PMT = 0, FV = \$5,000,000$, Compute $PV = -\$3,653,451$. The value of the liability 6 months is: $[\$3,653,451 + \{0.04(\$3,653,451)\}] = \$3,799,589$

140.Answer: C

When the market rate is greater than the coupon rate, the bond will sell at a discount as investors will only buy the bond at a price which is less than fair value due to the coupon being lower than the market rate.

141.Answer: C

The value of the bond's premium will be amortized toward zero over the life of the bond, not the value of the bond.

142.Answer: B

Newberg, upon issuance of the bonds, recorded bonds payable of $N = 2 \times 7 = 14$, $PMT = \$175,000, I/Y = 6/2 = 3, FV = \$5,000,000, CPT PV = \$5,282,402$. Interest

expense June 30, 2005, was $\$5,282,402 \times (0.06 / 2) = \$158,472$. The coupon payment was \$175,000, reducing bonds payable to $\$5,282,402 - (\$175,000 - \$158,472) = \$5,265,874$. Interest expense December 31, 2005, was $\$5,265,874 \times (0.06 / 2) = \$157,976$. Total interest expense in 2005 was $\$158,472 + \$157,976 = \$316,448$.

143. Answer: A

FV = 1000; PMT = 80/2; N = 5 × 2; I/Y = 10/2; solve for PV = 923.

LOS 28.c: Explain the derecognition of debt.

LOS 28.d: Describe the role of debt covenants in protecting creditors.

144. Answer: C

Lenders and other creditors use debt covenants in their lending agreements to restrict the activities of the debtor that could adversely impact the creditors' position. If any bond covenant is violated, the firm is in technical default on its debt. The creditors can demand payment of the debt, however, the terms are generally renegotiated. As such, the company does not automatically enter into bankruptcy and have its assets liquidated by the creditors.

LOS 28.e: Describe the financial statement presentation of and disclosures relating to debt.

145. Answer: B

The market rate on the balance sheet date is not typically disclosed. The amount of principal scheduled to be repaid over the next five years and collateral pledged (if any) are generally included in the footnotes to the financial statements.

LOS 28.f: Explain motivations for leasing assets instead of purchasing them.

LOS 28.g: Explain the financial reporting of leases from a lessee's perspective.

146.Answer:A

U.S. GAAP requires the lessee to recognize a balance sheet liability for both finance leases and operating leases.

147.Answer: A

IFRS requires an asset and a liability to be recorded on the lessee's balance sheet, unless the lease is short-term or for a low-value asset. The lessor classifies a lease as finance or operating under IFRS.

LOS 28.h: Explain the financial reporting of leases from a lessor's perspective.

148.Answer: C

For a lessor under U.S. GAAP, a lease is classified as a sales-type lease, a direct financing lease, or an operating lease. This distinction is not made under IFRS. A lease is classified as sales-type if risks of ownership are substantially transferred to the lessee and collection of lease payments is probable. The lessor derecognizes the leased asset and recognizes a lease receivable.

149.Answer: C

For an operating lease, the lessor retains the leased asset on its balance sheet and recognizes depreciation expense over its life. For a finance lease, the lessor removes the leased asset from its balance sheet and recognizes a lease receivable

LOS 28.i: Compare the presentation and disclosure of defined contribution and defined benefit pension plans.

150.Answer: A

Only a defined benefit plan has a funded status that would appear on the balance

sheet as an asset or liability. Employer payments into a defined contribution plan are recognized as expenses in the period incurred.

LOS 28.j: Calculate and interpret leverage and coverage ratios.

151.Answer: B

Leverage ratios will increase because debt increases while equity remains unchanged, and (assuming equity is positive) debt increases proportionally by more than assets. Coverage ratios decrease because interest payments increase while EBIT is unchanged.

Financial reporting and analysis (L1)
R29 financial reporting quality
R30 financial statement analysis: application



R29 FINANCIAL REPORTING QUALITY

LOS 29.a: Distinguish between financial reporting quality and quality of reported results (including quality of earnings, cash flow, and balance sheet items).

152. Which of the following is least likely one of the combinations of the quality of financial reporting and quality of reported earnings along the spectrum of financial report quality?
- A. Reporting is not compliant and includes numbers that are fictitious or fraudulent.
 - B. Reporting is compliant with GAAP, but the amount of earnings is actively managed to smooth earnings.
 - C. Reporting is not compliant with GAAP, although reported earnings are sustainable and adequate.
153. If a firm's financial reports are of low quality, can users of the reports assess the quality of the firm's earnings?
- A. Yes, because if financial reports are of low quality, earnings are also of low quality.
 - B. Yes, because users can assess earnings quality independently of financial reporting quality.
 - C. No, because low-quality financial reports are not useful for assessing the quality of earnings.

LOS 29.b: Describe a spectrum for assessing financial reporting quality.

LOS 29.c: Distinguish between conservative and aggressive accounting.

LOS 29.d: Describe motivations that might cause management to issue financial reports that are not high quality.

LOS 29.e: Describe conditions that are conducive to issuing low-quality, or even fraudulent, financial reports.

154. Management is most likely to be motivated to produce low-quality financial reports when:
- A. managers' compensation is unrelated to the firm's share price.
 - B. earnings are less than analysts expect.
 - C. the firm is not required to abide by loan covenants.

LOS 29.f: Describe mechanisms that discipline financial reporting quality and the potential limitations of those mechanisms.

155. Mechanisms that enforce discipline over financial reporting quality least likely include:
- A. government securities regulators.
 - B. accounting standard-setting bodies.
 - C. counterparties to private contracts.

LOS 29.g: Describe presentation choices, including non-GAAP measures, that could be used to influence an analyst's opinion.

LOS 29.h: Describe accounting methods (choices and estimates) that could be used to manage earnings, cash flow, and balance sheet items.

156. Conditions that may cause firms to issue low-quality financial reports are best described as:
- A. unstable organizational structure and deficient internal controls.
 - B. inappropriate ethical standards and failing to correct known reportable conditions.
 - C. opportunity, motivation, and rationalization.

LOS 29.i: Describe accounting warning signs and methods for detecting manipulation of information in financial reports.

157. Under which inventory cost flow assumption is a firm most likely to show an unusual increase in gross profit margin by sales in excess of current period production?
- A. Average cost.
 - B. LIFO.
 - C. FIFO.
158. Which of the following accounting warning signs is most likely to indicate manipulation of reported operating cash flows?
- A. Capitalizing purchases that comparable firms typically expense.
 - B. Higher estimated salvage values than are typical in a firm's industry.
 - C. More aggressive revenue recognition methods than comparable firms.



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R29 FINANCIAL REPORTING QUALITY

甄选题答案

R29 FINANCIAL REPORTING QUALITY

LOS 29.a: Distinguish between financial reporting quality and quality of reported results (including quality of earnings, cash flow, and balance sheet items).

152.Answer: C

When reporting is not compliant with GAAP, the sustainability and adequacy of reported earnings cannot be determined. The other two choices fall on the spectrum of the quality of financial reports.

153.Answer: C

Financial reports that are of low quality make it difficult or impossible for users of the statements to assess the quality of the firm's earnings, cash flows, and balance sheet values.

LOS 29.b: Describe a spectrum for assessing financial reporting quality.

LOS 29.c: Distinguish between conservative and aggressive accounting.

LOS 29.d: Describe motivations that might cause management to issue financial reports that are not high quality.

LOS 29.e: Describe conditions that are conducive to issuing low-quality, or even fraudulent, financial reports.

154.Answer: B

Meeting analysts' earnings expectations may motivate management to produce low-quality financial reports. Earning compensation based on the share price and avoiding breaches of loan covenants are also possible motivations.

LOS 29.f: Describe mechanisms that discipline financial reporting quality and the potential limitations of those mechanisms.

155.Answer: B

Accounting standard-setting bodies issue financial reporting standards but do not enforce compliance with them. Securities regulators and counterparties to private contracts are among the mechanisms that discipline financial reporting quality.

LOS 29.g: Describe presentation choices, including non-GAAP measures, that could be used to influence an analyst's opinion.

LOS 29.h: Describe accounting methods (choices and estimates) that could be used to manage earnings, cash flow, and balance sheet items.

156.Answer: C

The three conditions that often lead to low-quality financial reporting are opportunity, motivation, and rationalization.

LOS 29.i: Describe accounting warning signs and methods for detecting manipulation of information in financial reports.

157.Answer: B

Under LIFO and with increasing prices, a firm that sells more goods than it purchases or produces in a period may show an unsustainable increase in gross profit margin because items recognized in cost of sales are valued older, lower prices, while sales are recorded at current, higher prices.

158.Answer: A

Capitalizing purchases that other firms expense increases reported CFO by classifying



the cash outflows as CFI. Revenue recognition methods and accounting estimates may affect reported income but are unlikely to affect the amount or classification of cash flows.

R30 APPLICATIONS OF FINANCIAL STATEMENT

ANALYSIS

LOS 30.a: Evaluate a company's past financial performance and explain how a company's strategy is reflected in past financial performance.

LOS 30.b: Forecast a company's future net income and cash flow.

159. LIFO ending inventory can be adjusted to a FIFO basis by:

- A. adding the LIFO reserve.
- B. adding the change in the LIFO reserve.
- C. subtracting the change in the LIFO reserve.

160. For 2007, Morris Company had 73 days of inventory on hand. Morris would like to decrease its days of inventory on hand to 50. Morris' cost of goods sold for 2007 was \$100 million. Morris expects cost of goods sold to be \$124.1 million in 2008. Assuming a 365 day year, compute the impact on Morris' operating cash flow of the change in average inventory for 2008.

- A. \$3.0 million use of cash.
- B. \$6.3 million source of cash.
- C. \$3.0 million source of cash.

LOS 30.c: Describe the role of financial statement analysis in assessing the credit quality of a potential debt investment.

LOS 30.d: Describe the use of financial statement analysis in screening for potential equity investments.

161. Selected financial information gathered from Alpha Company and Omega Corporation follows:

| | Alpha | Omega |
|---|-------------|-------------|
| Revenue | \$1,650,000 | \$1,452,000 |
| Earnings before interest, taxes, depreciation, and amortization | 69,400 | 79,300 |
| Quick assets | 216,700 | 211,300 |
| Average fixed assets | 300,000 | 323,000 |
| Current liabilities | 361,000 | 404,400 |
| Interest expense | 44,000 | 58,100 |

Which of the following statements is *most* accurate?

- A. Omega uses its fixed assets more efficiently than Alpha.
- B. Omega has lower interest coverage than Alpha.
- C. Alpha has a higher operating profit margin than Omega.

LOS 30.e: Explain appropriate analyst adjustments to a company’s financial statements to facilitate comparison with another company.

162. Falcon Financial Group is considering the purchase of Company A or Company B based on a low price-to-book investment strategy that also considers differences in solvency. Selected financial data for both firms, as of December 31, 20X7, follows:

| in millions, except per-share data | Company A | Company B |
|------------------------------------|-----------|-----------|
| Current assets | \$3,000 | \$5,500 |
| Fixed assets | \$5,700 | \$5,500 |
| Total debt | \$2,700 | \$3,500 |
| Common equity | \$6,000 | \$7,500 |
| Outstanding shares | 500 | 750 |
| Market price per share | \$26.00 | \$22.50 |

The firms' financial statement footnotes contain the following:

Company A values its inventory using the first in, first out (FIFO) method.

Company B's inventory is based on the last in, first out (LIFO) method. Had Company B used FIFO, its inventory would have been \$700 million higher.

Company A leases its manufacturing plant. The remaining operating lease payments total \$1,600 million. Discounted at 10%, the present value of the remaining payments is \$1,000 million.

Company B owns its manufacturing plant.

To make the firms financial ratios comparable, calculate the adjusted price-to-book ratios for Company A and Company B.

| Company A | Company B |
|-----------|-----------|
| A. \$1.63 | \$2.06 |
| B. \$2.17 | \$2.06 |
| C. \$2.17 | \$2.81 |

**R30 APPLICATIONS OF FINANCIAL
STATEMENT ANALYSIS
甄选题答案**

R30 APPLICATIONS OF FINANCIAL STATEMENT

ANALYSIS

LOS 30.a: Evaluate a company's past financial performance and explain how a company's strategy is reflected in past financial performance.

LOS 30.b: Forecast a company's future net income and cash flow.

159.Answer: A

LIFO ending inventory can be adjusted to a FIFO basis by adding the LIFO reserve, which a firm using LIFO must disclose in the notes to its financial statements.

160.Answer: C

2007 inventory turnover was 5 (365 / 73 days in inventory). Given inventory turnover and COGS, 2007 average inventory was \$20 million (\$100 million COGS / 5 inventory turnover). 2008 inventory turnover is expected to be 7.3 (365 / 50 days in inventory). Given expected inventory turnover, 2008 average inventory is \$17 million (\$124.1 million COGS / 7.3 expected inventory turnover). To achieve 50 days of inventory on hand, average inventory must decline \$3 million (\$20 million 2007 average inventory – \$17 million 2008 expected inventory). A decrease in inventory is a source of cash.

LOS 30.c: Describe the role of financial statement analysis in assessing the credit quality of a potential debt investment.

LOS 30.d: Describe the use of financial statement analysis in screening for potential equity investments.

161.Answer: B

Using the EBITDA coverage ratio (EBITDA / Interest expense), Omega's EBITDA coverage is 1.4 (\$79,300 EBITDA / \$58,100 interest expense) and Alpha's EBITDA coverage is 1.6 (\$69,400 EBITDA / \$44,000 interest expense). Using EBITDA to measure operating profit, Alpha has a lower operating profit margin than Omega. Alpha's EBITDA margin is 4.2% (\$69,400 EBITDA / \$1,650,000 revenue) and Omega's EBITDA

margin is 5.5% (\$79,300 EBITDA / \$1,452,000 revenue). Using fixed asset turnover to measure the efficiency of fixed assets, Omega uses its fixed assets less efficiently than Alpha. Alpha's fixed asset turnover is 5.5 (\$1,650,000 revenue / \$300,000 average fixed assets) and Omega's fixed asset turnover is 4.5 (\$1,452,000 revenue / \$323,000 average fixed assets).

LOS 30.e: Explain appropriate analyst adjustments to a company's financial statements to facilitate comparison with another company.

162.Answer: B

Company A should be adjusted for the operating lease liability and the related assets; however, adding the present value of the lease payments to both assets and liabilities does not change equity (book value).

Thus, Company A's adjusted P/B ratio is $2.17 = [\text{\$26 price} / (\text{\$6,000 million equity} / 500 \text{ million shares})]$. Company B's inventory should be adjusted back to FIFO by adding the LIFO reserve to both assets and equity. Thus, Company B's P/B ratio is $2.06 = \text{\$22.50} / [(\text{\$7,500 million equity} + \text{\$700 million LIFO reserve}) / 750 \text{ million shares}]$.