

# Real CFA-Level-I Questions, Reliable CFA-Level-I Exam Question

CFA LEVEL I

MOCK TEST PAPER

Exam Date : 06-04-2020

Time Allowed : 60 Minutes

Full Marks : 40

This question paper comprises questions on Inventories

1. Lincoln Corporation and Continental Incorporated are identical companies except that Lincoln complies with U.S. Generally Accepted Accounting Principles and Continental complies with International Financial Reporting Standards. Assuming an inflationary environment and stable inventory quantities, which permissible cost flow assumption will minimize each firm's pre-tax financial income?

Lincoln Corporation	Continental Incorporated
A. Last-in, first-out	Last-in, first-out
B. Last-in, first-out	Average cost
C. First-in, first-out	First-in, first-out

2. Arlington, Inc. uses the first in, first out (FIFO) inventory cost flow assumption. Beginning inventory and purchases of refrigerated containers for Arlington were as follows:

	Units	Unit Cost	Total Cost
Beginning Inventory	20	\$10,000	\$200,000
Purchases, April	10	12,000	120,000
Purchases, July	10	12,500	125,000
Purchases, October	20	15,000	300,000

In November, Arlington sold 35 refrigerated containers to Johnson Company. What is the cost of goods sold assigned to the 35 sold containers?

A. \$382,500.  
B. \$434,583.  
C. \$485,000.

3. Using the lower of cost or market principle under U.S. GAAP, if the market value of inventory falls below its historical cost, the minimum value at which the inventory can be reported in the financial statements is the:

A. market price minus selling costs minus normal profit margin.  
B. net realizable value.  
C. net realizable value minus selling costs.

4. A U.S. GAAP reporting firm changes its inventory cost flow assumption from average cost to LIFO. The firm must apply this change:

A. retrospectively, because it is a change in accounting principle.  
B. prospectively, with LIFO layers calculated from past purchases and sales.  
C. prospectively, with the carrying value as the first LIFO layer.

5. Given the following data for a firm:

	Units	Unit Price
Beginning Inventory	709	\$2.00
Purchases	556	\$6.00
Sales	959	\$13.00
SGA Expenses	\$2,649 per annum	

Cost of goods sold using the average cost method and using the first in first out (FIFO) method are closest to:

Average cost	FIFO
A. \$4,150	\$3,400
B. \$3,600	\$2,900
C. \$3,600	\$3,400

6. If prices and inventory quantities are increasing, the last-in first-out (LIFO) inventory cost method results in:

A. lower gross profit compared to first-in first-out.  
B. higher inventory compared to first-in first-out.  
C. lower cost of goods sold compared to first-in first-out.

7. McKay Company uses a periodic inventory system and the FIFO inventory cost method. In the most recent period, McKay had beginning inventory of \$4,200, purchases of \$1,400, cost of sales \$1,300, and ending inventory of \$4,300. If McKay had used a perpetual inventory system, its ending inventory would have been:

1

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## CFA Institute CFA Level I Chartered Financial Analyst Sample Questions (Q1393-Q1398):

### NEW QUESTION # 1393

Suppose you are considering purchasing a financial asset which promises to pay 10 annual payments of \$1,000 with the rate of return quoted as 9% per annum. How much should you pay for the annuity if the first payment is made in one year's time?

- A. \$5759.02.
- B. \$6417.66.
- C. none of these.

**Answer: B**

Explanation:

Using hp-12C fCLEAR FIN: 0.00000000 fCLEAR REG: 0.00000000 10 n: 10.00000000 9 i:

9 .00000000 1000 CHS PMT: -1,000.000000 g END: -1,000.000000 PV: 6,417.657701

Using TI BA II Plus 2nd QUIT: 0.00 2nd CLR TVM: 0.00 1000 +/- PMT: PMT = 1,000.00

1 0 N: N = 10.00 9 I/Y: I/Y = 9.00 CPT PV: 6,417.66

Thus the series of cash flows of \$1000 per year is currently worth \$6417.66.

### NEW QUESTION # 1394

The obstacles to collusion include all of the following except:

- I). small number of firms
- II). low entry barriers
- III). unstable market demand
- IV). vigorous antitrust prosecution

- A. II and III.
- B. IV only.
- C. I only.

**Answer: C**

Explanation:

A small number of firms facilitate collusion by reducing the costs of both organizing and monitoring the cartel.

### NEW QUESTION # 1395

How does increasing the measure of days sales in payables (DSP) affect operating and financing cash flows?

Operating | Financing

- A. No impact | increase.
- B. Increase | No impact.
- C. Decrease | Increase.

**Answer: B**

Explanation:

A larger DSP will increase operating cash flow.

### NEW QUESTION # 1396

Which of the following items would not generally be addressed when constructing an investment policy?

- A. Allowable margins within which the manager may deviate away from the original asset mix.
- B. Credit rating above which securities may be considered.
- C. The required rate of return expected for the risk that's being taken.

**Answer: C**

Explanation:

While the investment policy will discuss the type or returns that are expected (i.e. Growth, income, or income and growth), it is not often that a specific expected return is incorporated into the policy statement.

#### NEW QUESTION # 1397

At the beginning of the year, Chock Company had \$50,000 in assets and \$20,000 in liabilities. At the end of the year, the company had \$80,000 in assets and \$40,000 in liabilities. If, during the year, no investments were made in the business and dividends of \$2,000 were declared and paid during the year, net income for the year must have been:

- A. \$10,000.
- B. \$8,000.
- C. \$12,000.

**Answer: C**

Explanation:

Net income for the year was \$12,000. Net income or loss (revenues less expenses) and dividends affect stockholders' equity. Stockholders' equity would have been \$30,000 at the beginning of the year (\$50,000 - \$20,000) and \$40,000 at the end of the year (\$80,000 - \$40,000). The change in stockholders' equity over the year was a \$10,000 increase. If \$2,000 was declared and paid in dividends, net income must have been \$12,000 (\$30,000 + \$12,000 - \$2,000 = \$40,000).

#### NEW QUESTION # 1398

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