CFA Level 1 FSA effects cheat sheet

Use this sheet when you practise CFA Level I financial statement analysis questions. Questions are set under IFRS unless they say otherwise.

Tracing one change: five checks

1. Find the first line the change touches.
2. Follow it down the income statement: expense, pre-tax profit, tax, net income.
3. Carry net income into equity and check the balance sheet balances.
4. Ask whether cash moved, and in which section: operating, investing or financing.
5. Check ratios last: numerator, denominator or both.

Inventory when costs are rising

IFRS prohibits LIFO, so IFRS questions compare FIFO with weighted average. LIFO appears only in US GAAP questions.

Effect	FIFO	Weighted average	LIFO
Cost of sales	Lowest	Middle	Highest
Ending inventory	Highest	Middle	Lowest
Gross margin	Highest	Middle	Lowest
Inventory turnover	Lowest	Middle	Highest
Current ratio	Highest	Middle	Lowest

When costs are falling, the rankings reverse. The method changes cash only through tax. A LIFO liquidation (selling more units than you buy) releases older, cheaper layers and can lift profit for one year.

Lease reporting by the lessee

Item	US GAAP finance	US GAAP operating	IFRS
Expense shown	Amortisation and interest	One lease expense	Amortisation and interest
Early-year expense	Higher	Level	Higher
Principal paid	Financing	Operating	Financing
Interest paid	Operating	Operating	Policy choice

The IFRS interest row follows the Level I curriculum. IFRS 18, for reporting periods beginning on or after 1 January 2027, moves interest paid to financing for most companies.

Indirect method in five steps

1. Start with net income.
2. Add back non-cash expenses (depreciation, amortisation, depletion, increase in deferred tax liability). Subtract non-cash income.
3. Subtract non-operating gains and add back non-operating losses.
4. Adjust for operating working capital, using the signs below.
5. Check that each balance is used once, with the right sign.

Balance change	Adjustment
Operating asset up	Subtract
Operating asset down	Add
Operating liability up	Add
Operating liability down	Subtract

Sources: CFA Institute Level I exam page; Medly's CFA Level I lessons on inventory cost trends, lessee reporting and indirect operating cash. Last checked: 17 November 2026.