CFA Level 1 practice questions by topic, with answers

Fifteen questions in the Level I style, written for this guide, grouped by topic. Each has three options and one best answer. Try them under time pressure: about 90 seconds each. Answers and working are at the end.

Ethical and Professional Standards

1. A portfolio manager receives theater tickets worth $500 from a client to thank her for strong performance last year. Under the Standards, she should most likely:

A. decline the gift.

B. disclose the gift to her employer.

C. accept the gift with no further action.

2. A candidate who has passed Level I writes "CFA, Level I" after his name on his business card. This is most likely:

A. acceptable, because he passed Level I.

B. a violation, because there is no partial CFA designation.

C. acceptable, if he also lists the date he passed.

3. An analyst overhears a company's CEO say in a lift that a merger has been agreed but not yet announced. The analyst buys the company's shares. He has most likely violated the Standard on:

A. Material Nonpublic Information.

B. Market Manipulation.

C. none, because he heard the information by chance.

Quantitative Methods

4. You invest $5,000 today at 8% a year, compounded annually. Its value after 5 years is closest to:

A. $7,000.00

B. $7,346.64

C. $7,429.74

5. A stated annual rate of 12%, compounded monthly, gives an effective annual rate closest to:

A. 12.00%

B. 12.55%

C. 12.68%

Financial Statement Analysis

6. A company's current assets are cash $80, receivables $120 and inventory $100. Current liabilities are $200. Its quick ratio is closest to:

A. 0.5

B. 1.0

C. 1.5

7. A US GAAP company has rising purchase prices and stable inventory quantities. Compared with FIFO, LIFO most likely reports:

A. higher cost of goods sold.

B. higher ending inventory.

C. higher gross profit.

8. A machine costs $120,000, has a salvage value of $20,000 and a useful life of 4 years. Using straight-line depreciation, its book value at the end of year 2 is closest to:

A. $50,000

B. $60,000

C. $70,000

Corporate Issuers

9. A project costs $50,000 today and returns $20,000 at the end of each of the next 3 years. At a required return of 8%, its NPV is closest to:

A. $262.96

B. $1,541.94

C. $10,000.00

10. A project costs $1,000 today and returns $1,210 in two years, with no other cash flows. Its IRR is closest to:

A. 10.0%

B. 10.5%

C. 21.0%

Equity Investments

11. A preferred share pays a fixed $5.00 dividend a year forever. At a required return of 8%, its value is closest to:

A. $5.40

B. $40.00

C. $62.50

12. A price-weighted index holds three stocks priced at $10, $20 and $60. If the $60 stock rises 10% and the others are unchanged, the index rises by closest to:

A. 3.33%

B. 6.67%

C. 10.00%

Fixed Income

13. A bond with a par value of 100 pays a 5% annual coupon and matures in 3 years. Priced on a coupon date at a 4% annual yield, its price is closest to:

A. 97.33

B. 100.00

C. 102.77

14. For the same change in yield, which option-free bond's price most likely changes the most?

A. 10-year maturity, 2% coupon

B. 10-year maturity, 6% coupon

C. 3-year maturity, 2% coupon

15. A bond pays a $60 annual coupon and trades at $950. Its current yield is closest to:

A. 5.70%

B. 6.00%

C. 6.32%

Answers and working

1. B. Under Standard I(B) Independence and Objectivity, a gift from a client for past performance should be disclosed to the employer. A gift tied to future performance would need the employer's written consent under Standard IV(B).

2. B. Standard VII(B) does not allow a partial designation. He can say accurately that he has passed Level I or is a Level II candidate in the CFA Program.

3. A. The information is material and not public, so trading on it breaks Standard II(A), however he heard it.

4. B. $5,000 × 1.08 = $5,000 × 1.469328 = $7,346.64. A is simple interest. C uses quarterly compounding.

5. C. $(1 + 0.12 \div 12)^{12} \quad 1 = 1.01^{12} \quad 1 = 12.68\%$. B uses quarterly compounding.

6. B. Quick ratio = (cash + receivables) ÷ current liabilities = (80 + 120) ÷ 200 = 1.0. C is the current ratio, which includes inventory.

7. A. With rising prices, LIFO charges the newest, most expensive costs to cost of goods sold. That lowers gross profit and leaves older, cheaper costs in ending inventory.

8. C. Annual depreciation = (120,000 20,000) ÷ 4 = 25,000. Book value after 2 years = 120,000 50,000 = 70,000. B ignores salvage value.

9. B. PV of inflows = $20{,}000 \div 1.08 + 20{,}000 \div 1.08^2 + 20{,}000 \div 1.08^3 = 51{,}541.94$. NPV = 51,541.94 50,000 = 1,541.94. On the BA II Plus: 3 [N], 8 [I/Y], 20000 [PMT], 0 [FV], [CPT] [PV], then add 50,000. A uses 10%. C ignores discounting.

10. A. $1{,}000 \times (1 + IRR)^2 = 1{,}210$, so $(1 + IRR)^2 = 1.21$ and IRR = 10%. C forgets the money is invested for two years.

11. C. Value of a perpetuity = dividend ÷ required return = 5.00 ÷ 0.08 = $62.50.

12. B. Index before = (10 + 20 + 60) ÷ 3 = 30. After = (10 + 20 + 66) ÷ 3 = 32. Change = 32 ÷ 30 1 = 6.67%.

13. C. Price = 5 ÷ 1.04 + 5 ÷ 1.04^2 + 105 ÷ 1.04^3 = 4.8077 + 4.6228 + 93.3443 = 102.77. The coupon is above the yield, so a premium price makes sense. On the BA II Plus: 3 [N], 4 [I/Y], 5 [PMT], 100 [FV], [CPT] [PV].

14. A. Longer maturity and a lower coupon both increase price sensitivity to yield changes, so the 10-year 2% bond moves most.

15. C. Current yield = annual coupon ÷ price = 60 ÷ 950 = 6.32%. B divides by par instead of price.

Practice more questions like these, topic by topic, at medlyai.com.