2007 Level 1 Sample Exam Volume 2

SS2/3-Quantitative Methods

Q11. Would a client making additions or withdrawals of funds most likely affect their portfolio's:

	Time-weighted return?	Money-weighted return?
A.	No	No
B.	No	Yes
C.	Yes	No
D.	Yes	Yes

SS7/8/9/10-Financial Statement Analysis

Q26. Do U.S. GAAP and IAS GAAP differ with respect to the treatment o nonrecurring items and the treatment of discontinued operations, respectively?

	Treatment of nonrecurring items	Treatment of discontinued operations
A	No	No
B	No	Yes
C	Yes	No
C	Yes	Yes

Q27. Assume U.S.GAAP (generally accepted accounting principles) applies unless otherwise noted.

Northern Cooking is a restaurant that operates in a rented space in a downtown shopping complex While getting the restaurant ready to open, the company incurred renovation costs including the installation of lighting fixtures, flooring, and the alteration of the interior décor of the space. These costs would be classified on Northern Cooking's financial statements as:

A. leasehold improvements
B. buildings and equipment.
C. assets under operating leases
D. expenses in the year incurred.

Q28.Assume U.S.GAAP (generally accepted accounting principles) applies unless otherwise noted. Which of the following would most likely be classified as a long-term asset on the respective company's balance sheet?

A. A car on display in the showroom of a car dealership.
B. A car bought to be used for delivery of the company's products.
C. A car leased for 6 months during the company's peak period to be used by the sales staff.
D. A vintage 1928 ford Model T bought at an auction by the CEO of a manufacturing firm, with the

intention of holding it for resale when the price increases.

SS13/14-Equity Investments

Q59. An analyst gathered the following information about two common stocks:

	Easy Company	Bravo Enterprises
Estimated future rate of return	12.0%	11.5%
Beta	1.25	1.00

If the risk-free rate of return is 5 percent and the market risk premium is 6 percent, the most appropriate conclusions about the value of the common stocks of Easy Company and Bravo Enterprises, respectively, are:

	Easy Company common stock	Bravo Enterprises common stock
A	Overvalued	Overvalued
B	Overvalued	Undervalued
C	Undervalued	Overvalued
D	Undervalued	Undervalued