

2007 December CFA Level 1 – Mock Test 2 Answers

Q11. B

2007 Modular Level I, Vol.1, pp.220-223

Study Sessions 2-6-c

The time-weighted return is not affected by cash withdrawals or additions to the portfolio. The money-weighted return measure would be affected by client additions or withdrawals. If a client adds funds at a favorable time, the money-weighted return will be elevated. In contrast, if a client adds funds at an unfavorable time, the money-weighted return will be depressed.

Q26. D

2007 Modular Level I, Vol.3, pp 73-77

Study Sessions 7-34-d

The IAS differs from the U.S. GAAP with respect to the treatment of both nonrecurring items and discontinued operations.

Q27. A

2007 Modular Level I, Vol.3, pp 363

Study Sessions 9-41-a,b

Improvements to leased property that becomes the property of the lessor at the end of the lease are classified as leasehold improvements.

Q28. B

2007 Modular Level I, Vol.3, pp 354- 355

Study Sessions 9-41-a

The asset is used in the operation of the business, has a useful life of more than one year and is not intended for resale to the customer.

Q59. B

Study Session 12-54-f

The required rate of return for Easy is $5\% + 1.25(6\%) = 12.5\%$. The required return is greater than the estimated return, so the stock is overvalued. Bravo's required rate of return is $5\% + 1(6\%) = 11\%$ (because the beta is 1.0, the return is the same as the market). The required return is less than the estimated return, so the stock is undervalued.