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Question 1

Question Type: MultipleChoice

Clay Industries, a large industrial firm, is examining its capital structure. The firm is financed according to the following schedule based on market values:

50% debt

40% common stock

10% perpetual preferred stock

Additionally, consider the following information:

Yield on outstanding debt: 8.50%

Tax rate: 35%

Annual preferred dividend: \$2.55

Preferred stock price: \$25.97

Return on equity: 16.75%

Dividend payout ratio: 50%

Cost of common stock: 14.25%

Using this information, what is the Weighted Average Cost of Capital for Clay Industries?

Options:

A- 8.97%

B- $\{\text{Percentage of debt} * [\text{coupon on outstanding debt} * (1 + \text{combined state/federal tax rate})]\}$
+ $\{\text{percentage of preferred stock} * [\text{annual preferred dividend}/(\text{offering price} + \text{flotation costs})]\}$
+ $\{\text{percentage of common equity} * \text{cost of common equity}\}$

C- 9.45%

D- 9.25%

E- 9.37%

F- None of these answers

Answer:

C

Question 2

Question Type: MultipleChoice

GAAP requires that:

Options:

- A- cash flows from interest related inflows and outflows on debt be considered investing cash flows.
- B- cash flows from dividend receipts be considered investing cash flows.
- C- all of these answers.
- D- none of these answers.

Answer:

D

Question 3

Question Type: MultipleChoice

All of the following statements are true about futures and options clearinghouses except:

Options:

- A- The clearinghouse acts as the opposite side of all trades once they are initiated.
- B- The clearinghouse guarantees that traders in the futures market will honor their obligations.
- C- The clearinghouse requires the daily settlement of all margin accounts.
- D- Clearinghouses have defaulted on less than one half of one percent of their trades.

Answer:

D

Question 4

Question Type: MultipleChoice

An analyst with Smith, Kleen & Beetchnutty Securities is trying to determine the EPS for a stock

market series. Which option best steps will not be involved in his EPS estimation?

Options:

- C- Estimate the sales-per-share for the series.
- D- Estimate the operating profit margin for the series.
- E- All of these steps are required.

Answer:

E

Question 5

Question Type: MultipleChoice

Which of the following statements is false in reference to confidence intervals and/or tests of significance? Choose the best answer.

Options:

- A- The three conventional level of confidence are 0.10, 0.05, and 0.01.
- B- All else equal, the confidence interval for a 1% significance level is larger than the confidence interval for a 5% significance level.
- C- The confidence level is typically equal to (1 - the probability of a Type II error).
- D- The significance level is denoted by the Greek letter alpha.
- E- The confidence level is equal to the significance level.
- F- More than one of these answers is incorrect.

Answer:

F

Question 6

Question Type: MultipleChoice

Which option best events is likely to encourage a corporation to increase its debt ratio?

Options:

- A- An increase in the personal tax rate.
- B- An increase in the expected cost of bankruptcy.
- C- Increased uncertainty about the level of sales and output prices.
- D- An increase in the corporate tax rate.

Answer:

D



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