

CFA Level I Errata

The CFA Institute update the errata in the curriculum on a regular basis. Please check the link below for the most up to errata

https://www.cfainstitute.org/Eratta/2017_level_I_errata.pdf

The following errata has been identified in the BPP 2016 material. Please accept our apologies for the inconvenience caused.

Study Guide

Study Session 4 Assessment Out Test

(added 23/2/2017)

Page 80

Question 1 – The correct answer is B. The calculations are correct.

Study Session 11 Assessment Out Test

(added 23/2/2017)

Page 186 and Page 189

Question 10, 11 and 12 are repeats of Question 1,2 and 3. Please replace questions 10, 11 and 12 with

10. Farley's plc business operations have a degree of operating leverage of 1.4 and a degree of financial leverage of 1.7. The company expects to see a 6% increase in revenue next year. The expected increase in net income is closest to:

- A 2.4%
- B 14.3%
- C 18.6%

11. Corn plc shares trade at an estimated P/E ratio of 15. The company decides to borrow funds, at an after tax cost of debt of 6%, in order repurchase shares. It is most likely Corn's EPS is most likely to:

- A decrease
- B increase
- C remain the same

12. Which of the following is LEAST likely to lead to an increase in a company's net operating cycle?

- A Paying suppliers earlier
- B Offer customers longer credit terms
- C Writing off obsolete inventory

10. A $DTL = DOL \times DFL = 1.4 \times 1.7 = 2.38x$

A 1% increase in revenue is will lead to 2.24% increase in net income. Therefore a 60% increase in revenue will lead to a (6×2.38) 14.28% increase in operating profits.

11. A Corn's earnings yield, $1/15 = 6.7\%$, is higher than its after tax cost of debt. Corn's EPS will therefore increase.

12. C Net Operating Cycle = Days of Receivable + Days of Inventory – number of days payable.

Writing of inventory will lead to a lower inventory number in the balance sheet and hence a lower number of inventory days. As the inventory is obsolete writing it off will presumably not lead to lower sales.

$$\text{Days of inventory} = (\text{Inventory} / \text{Sales}) \times 365$$