

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: A financial surplus in the first iteration of a firm's pro forma financial statements is most likely the result of:

CORRECT ANSWER:

(b) an increase in retained earnings greater than the increase in assets.

Usually a positive surplus in the first iteration of a firm's pro forma financial statements results when the pro forma balance sheet value of total assets is less than the pro forma balance sheet value of liabilities and shareholders' equity, which reflects retained earnings from the period.

Further assumptions about the use of retained earnings are required to reconcile the pro forma income statement and balance sheet.

Golden Rule: **Assets = Liabilities + Equity**



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