

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: An analyst is constructing pro forma financial statements for Company ABC. He make the statement based on an expected 8% increase in sales next year. His first iteration results in a financial surplus of \$3.5 million.

Which of the following assumptions would result in no financial surplus or deficiency in the next iteration of the pro forma statement?

CORRECT ANSWER:

(b) Company ABC will use the surplus to repurchase its common stock.

Using the entire surplus to repurchase common shares would not affect net income, so the financial surplus in the second iteration would be zero.

On the other hand, assuming that part of the surplus is used to retire debt will decrease the interest expense on the pro forma income statement and increase net income, thus will resulting in a positive surplus in the amount of the after-tax interest saving from the assumed debt retirement.



CFA Society Hong Kong
Candidate Services