

CFA® SAMPLE QUESTION – LEVEL I

Equity Investments

Q: Which of the following is least likely an advantage of using price/sales (P/S) multiple?

CORRECT ANSWER:

Ⓒ P/S multiples are more reliable because sales data cannot be distorted by management.

Accounting data on sales is used to calculate the P/S multiple. The P/S multiple is thought to be more reliable only because sales figures are not as easy to manipulate as the earnings and book value, both of which are significantly affected by accounting conventions. (but it doesn't mean that the management can't manipulate the Sales Data)

Ans A, even for distressed firms, net earnings is negative, sales topline will usually still be positive.

And B, Sales topline figures are supposed to be not as volatile as the bottom-line figure: net income.



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