

CFA® SAMPLE QUESTION - LEVEL I

Financial Reporting and Analysis

Q: All other things held constant, which of the following transactions will increase a firm's current ratio if the ratio is greater than one?

CORRECT ANSWER:

Ⓒ Accounts payable are paid with funds from the cash account.

Remember the definition of current ratio.

Current ratio = Current assets/ current liabilities.

If CR is already greater than 1.

Then if CA and CL both fall (i.e. answer C), the overall ratio will increase

e.g. Original CA = 10, CL = 5 ==> Current ratio = $10/5 = 2$

Updated CA = 8, CL = 3 ==> Current ratio = $8/3 = 2.67$



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