

CFA® SAMPLE QUESTION - LEVEL I

Financial Reporting and Analysis

Q: When comparing the use of the percentage-of-completion method with the completed contract method during a long-term project's life, the percentage-of-completion method will result in which of the following?

CORRECT ANSWER:

(C) lower debt-to-equity ratio.

Because the percentage-of-completion method reports lower liabilities and higher net worth, the debt-to-equity ratio will be lower.

Choice "b" is incorrect. Because the periodic earnings will be higher under the percentage-of-completion method, the return on assets ratio will be higher.

Choice "a" is incorrect. The asset turnover ratio is higher under the percentage-of-completion method because sales are reported during the life of the project.



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