

## CFA® SAMPLE QUESTION – LEVEL I

## Financial Reporting and Analysis

**Q:** A company engaged in real estate transactions had an exceptionally successful quarter and as a result it has selectively structured a few of the most profitable deals to qualify as installment sales.

Structuring deals this way:

**CORRECT ANSWER:**

**(a) Allows the firm to boost future margins.**

Having a successful quarter gives the company incentive to smooth revenue and net income by deferring profits to future periods. Arranging the most profitable of these transactions as installment sales allows them to spread these into the future, boosting future margins.

Choice "b" is incorrect. The tax consequences would result from the difference between the depreciated value of the property and the sale price. Structuring a sale as an installment would defer taxes to future periods, but would not change the amount of capital gain.

Choice "c" is incorrect. This would be true under the cost recovery method, where profit is not recognized until all the costs of the transaction have been recovered by the seller. With an installment sale, profit is recognized in each period.



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