

CFA® SAMPLE QUESTION - LEVEL I

Corporate Finance

Q: Which of the following statements concerning the principles underlying the capital budgeting process is most accurate?

CORRECT ANSWER:

(a) Cash flows should be based on opportunity costs.

Cash flows are based on opportunity costs.

Financing costs are recognized in the project's required rate of return. ==> Answer C thus is incorrect.

Accounting net income, which includes non-cash expenses (such as depreciation, amortization etc...) is irrelevant. ==> Answer B, thus is incorrect.

Incremental cash flows are essential for making correct capital budgeting decisions.



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