

## CFA® SAMPLE QUESTION – LEVEL I

### Financial Reporting and Analysis

**Q:** At the beginning of the year, Firm XYZ already paid its annual operating lease obligation in advance. What is the immediate impact of this transaction on Firm XYZ's total assets and total liabilities?

#### CORRECT ANSWER:

	<u>Assets</u>	<u>Liabilities</u>
<b>(a)</b>	<b>No Effect</b>	<b>No Effect</b>

This question test your balance sheet knowledge again.

Firm XYZ has simply prepaid its annual payment; rent expense has not yet been incurred.

When cash is paid in advance of recognizing an expense, one asset (cash) decreases and another asset (prepaid expenses) increases by the same amount.

Liabilities accounts are not affected.



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