

CHARTERED FINANCIAL ANALYST (CFA) LEVEL 1 PRACTICE EXAM (SAMPLE) STUDY GUIDE



Prepare with structure. Pass with confidence



Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

SAMPLE

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

SAMPLE

- 1. To calculate debt payment, which formula should be used?**
 - A. $\text{CFO} / \text{Cash paid for long-term debt repayment}$
 - B. $\text{CFO} / \text{total debt}$
 - C. $\text{CFO} / \text{interest expense}$
 - D. $\text{CFO} / \text{current liabilities}$
- 2. What is Gross Profit Margin calculated as?**
 - A. $\text{Gross Profit} + \text{Revenue}$
 - B. $\text{Gross Profit} / \text{Net Income}$
 - C. $\text{Gross Profit} / \text{Revenue}$
 - D. $\text{Net Income} / \text{Revenue}$
- 3. What is the formula for calculating Payable Turnover?**
 - A. $\text{Average payables} / \text{total purchases}$
 - B. $\text{Purchases} / \text{average payables}$
 - C. $\text{Revenue} / \text{average payables}$
 - D. $\text{Total purchases} / \text{cash disbursements}$
- 4. Which formula represents FFO (Funds from operations) interest coverage?**
 - A. $(\text{FFO} + \text{interest paid} - \text{operating lease adjustments}) / \text{Gross interest}$
 - B. $\text{FFO} / \text{Total debt}$
 - C. $\text{CFO}(\text{adjusted}) - \text{Capital expenditures} / \text{Total Debt}$
 - D. $\text{EBIT} / \text{Average Total Capital}$
- 5. What is an initial public offering (IPO)?**
 - A. The process by which a private company offers its shares to the public for the first time
 - B. A method for calculating a company's net worth
 - C. A type of loan for public companies
 - D. The issuance of preferred stock only
- 6. What is the correct formula for investing and financing?**
 - A. $\text{CFO} / \text{cash outflows from investing and financing activities}$
 - B. $\text{CFO} / \text{net cash from financing activities}$
 - C. $\text{CFO} / \text{gross investments}$
 - D. $\text{CFO} / \text{total cash flows}$

7. How is Receivables Turnover calculated?

- A. Average receivables / revenue from credit sales
- B. Revenue or revenue from credit sales / average receivables
- C. Credit sales / average receivables
- D. Total sales / average receivables

8. Liabilities on a balance sheet refer to which of the following?

- A. Investments made by the company
- B. Obligations of a company, representing debts or amounts owed to creditors
- C. Fundamentals of cash flow
- D. Owner's equity in the business

9. Which of these is a significant indicator of economic performance?

- A. Interest rates
- B. Tax policies
- C. Gross domestic product (GDP)
- D. Market sentiment

10. What does the dividend payout ratio represent?

- A. Common share dividends / Net income attributable to common shares
- B. FFO / Total debt
- C. [CFO - Capital Expenditures] / Total Debt
- D. (CFO + Interest Paid) / Gross Interest

Answers

SAMPLE

1. A
2. C
3. B
4. A
5. A
6. A
7. B
8. B
9. C
10. A

SAMPLE

Explanations

SAMPLE

1. To calculate debt payment, which formula should be used?

A. CFO / Cash paid for long-term debt repayment

B. CFO / total debt

C. CFO / interest expense

D. CFO / current liabilities

The formula to calculate debt payment focuses on how effectively a company can use its cash flow from operations (CFO) to service its debt obligations. The most appropriate choice is the one that relates CFO to the cash paid for long-term debt repayment. This ratio is valuable as it provides insight into the relationship between the cash generated by the business and its ability to manage its debt responsibilities. Using cash flow from operations divided by cash paid for long-term debt repayment indicates how many times a company can cover its long-term debt obligations with its generated cash flow. This metric is important for assessing the financial health and stability of a company in relation to its debt load. It highlights the company's ability to generate sufficient cash to meet its long-term financial commitments. The other options do not capture the same direct relationship between operating cash flow and specific debt repayment funds: - Total debt doesn't reflect the immediate capacity to pay debt, but rather the total amount of debt outstanding. - Interest expense provides insight into the cost of debt but does not directly relate to cash flow adequacy for principal repayments. - Current liabilities encompass all short-term obligations and do not specifically focus on the relationship with long-term debt repayment. Thus, using CFO in relation to cash paid for long-term debt gives

2. What is Gross Profit Margin calculated as?

A. Gross Profit + Revenue

B. Gross Profit / Net Income

C. Gross Profit / Revenue

D. Net Income / Revenue

The Gross Profit Margin is a key financial metric that assesses a company's financial health by revealing the percentage of revenue that exceeds the cost of goods sold (COGS). This calculation is done by dividing Gross Profit by Revenue. Gross Profit is determined by subtracting the cost of goods sold from total revenue, indicating how effectively a company is producing its goods and controlling costs associated with their production. The formula is thus represented as: $\text{Gross Profit Margin} = \text{Gross Profit} / \text{Revenue}$. A high gross profit margin indicates that a company retains a significant portion of revenues as profit, which can be used for other expenses, investments, or reinvested back into the business. This ratio is particularly useful for comparing the profitability of companies within the same industry. The other options provided do not accurately reflect the calculation of Gross Profit Margin: - "Gross Profit + Revenue" does not provide a percentage and does not relate to profitability. - "Gross Profit / Net Income" uses net income, which is affected by other expenses and taxes, hence not a direct measure of gross profitability. - "Net Income / Revenue" calculates the net profit margin, which considers all expenses and income, rather than just the cost of goods sold. Overall, understanding the gross profit margin is crucial for

3. What is the formula for calculating Payable Turnover?

- A. Average payables / total purchases
- B. Purchases / average payables**
- C. Revenue / average payables
- D. Total purchases / cash disbursements

The formula for calculating Payable Turnover is identified correctly as the ratio of Purchases to Average Payables. This measure is used to assess how effectively a company manages its accounts payable. The Payable Turnover ratio indicates how often a company pays off its suppliers within a specific time period, usually over a year. When you divide Purchases by Average Payables, you are essentially measuring the speed at which a firm settles its short-term obligations. A higher ratio suggests that a company is paying its suppliers quickly, which could imply good liquidity or favorable credit terms. Conversely, a lower ratio may indicate that a company is extending its payable period, possibly due to cash flow issues or negotiating longer payment terms with suppliers. The other options provide incorrect interpretations or formulations of the concept. For example, the average payables divided by total purchases would yield an inverse measure rather than the turnover itself, and using revenue instead of purchases misrepresents the focus on supplier payments. Similarly, total purchases divided by cash disbursements mixes different financial metrics without offering a clear insight into payable turnover.

4. Which formula represents FFO (Funds from operations) interest coverage?

- A. (FFO + interest paid - operating lease adjustments) / Gross interest**
- B. FFO / Total debt
- C. CFO(adjusted) - Capital expenditures / Total Debt
- D. EBIT / Average Total Capital

The formula representing FFO (Funds from Operations) interest coverage is given by: (FFO + interest paid - operating lease adjustments) / Gross interest. This formula is designed to assess an entity's ability to cover its interest expenses through funds generated from operations. In this context, FFO serves as a measure of cash flow that focuses specifically on the cash generated by a company's core operations, excluding the effects of capital structure and financing activities. By adjusting the FFO to include interest paid and exclude operating lease costs, this formula provides a more accurate representation of the cash available to meet interest obligations. Interest coverage ratios are critical for evaluating a company's financial health, particularly in showing how well a company's earnings can cover its interest expenses. A higher ratio indicates better ability to meet interest payments, which can be reassuring to creditors and investors alike. The other formulas do not focus specifically on measuring the relationship between funds from operations and interest expenses, making them less relevant for assessing interest coverage. For example, FFO / Total Debt examines overall leverage rather than the specific ability to cover interest payments, while EBIT / Average Total Capital focuses on profitability relative to total capital rather than cash flow management concerning debt service.

5. What is an initial public offering (IPO)?

- A. The process by which a private company offers its shares to the public for the first time
- B. A method for calculating a company's net worth
- C. A type of loan for public companies
- D. The issuance of preferred stock only

An initial public offering (IPO) is defined as the process by which a private company offers its shares to the public for the first time. This crucial step allows the company to raise capital by selling ownership stakes to public investors, thereby transitioning from a privately held entity to a publicly traded company. During an IPO, the company typically works with investment banks to determine the price and amount of shares to be sold, and it also provides extensive financial disclosures to comply with regulatory requirements. The significance of an IPO goes beyond just capital raising; it often serves as a mechanism for providing liquidity to existing shareholders, including early investors and employees holding stock options. Additionally, going public can enhance the company's visibility and credibility in the marketplace, potentially leading to increased sales and opportunities for growth. In contrast, the other options do not accurately capture the essence of an IPO. While methods for calculating a company's net worth and types of financing might be relevant in financial discussions, they do not describe the IPO process. Similarly, the issuance of preferred stock is only a specific type of equity issuance and does not represent the broad concept of an IPO, which encompasses common stock as well.

6. What is the correct formula for investing and financing?

- A. CFO / cash outflows from investing and financing activities
- B. CFO / net cash from financing activities
- C. CFO / gross investments
- D. CFO / total cash flows

The correct formulation for analyzing the relationship between cash flows from operations (CFO) and cash flows related to investments and financing activities is indeed represented by the expression of CFO divided by cash outflows from investing and financing activities. This ratio helps to assess the ability of a company to generate cash from its operations relative to its cash outflows from investing and financing activities. It provides insight into how well the operational cash flows can cover the expenditures tied to both the acquisition of long-term assets (investing) and the management of the company's capital structure (financing). A higher ratio indicates a strong operational performance where the cash generated from operations exceeds the cash being used for investment and financing purposes, suggesting a healthier financial position. In contrast, the other options either narrow the focus too specifically or provide alternative perspectives not directly addressing the comprehensive nature of evaluating operational cash flow against the outflows stemming from both investment and financing activities. Hence, the context of the question aligns effectively with the chosen formulation.

7. How is Receivables Turnover calculated?

- A. Average receivables / revenue from credit sales
- B. Revenue or revenue from credit sales / average receivables**
- C. Credit sales / average receivables
- D. Total sales / average receivables

Receivables Turnover is calculated by dividing revenue or revenue from credit sales by average receivables. This ratio measures how efficiently a company utilizes its assets by indicating how many times, on average, receivables are collected during a specific period. The logic behind this calculation is that it reflects the effectiveness of a company in managing its credit policies and collecting the amounts owed by customers. A higher Receivables Turnover ratio suggests that a company is efficient in collecting its receivables, while a lower ratio may indicate potential issues in credit policies or collection processes. Using revenue from credit sales specifically focuses on the sales made on credit, providing a clearer view of how quickly the company is able to convert its receivables into cash from those sales. This gives investors and analysts a more accurate picture of liquidity and operational efficiency regarding credit management. The other options are less representative of the Receivables Turnover concept, as they do not correctly attribute the relationship between sales and the average accounts receivable balance as per the standard calculation.

8. Liabilities on a balance sheet refer to which of the following?

- A. Investments made by the company
- B. Obligations of a company, representing debts or amounts owed to creditors**
- C. Fundamentals of cash flow
- D. Owner's equity in the business

Liabilities on a balance sheet represent the obligations of a company, indicating debts or amounts owed to creditors. This is a fundamental concept in accounting because liabilities reflect the financial responsibilities that the company has to external parties, including suppliers, lenders, and other stakeholders. Understanding liabilities is crucial for assessing a company's financial health. These obligations can include short-term liabilities, such as accounts payable, and long-term liabilities, such as loans and bonds payable. Monitoring these liabilities allows investors and analysts to evaluate the risks associated with a company's capital structure and its ability to meet financial obligations. The other options pertain to different aspects of a company's financial status. Investments would fall under assets on the balance sheet, cash flow fundamentals relate to the company's operational efficiency, and owner's equity represents the residual interest in the company's assets after deducting liabilities. Each of these plays a unique role in understanding a company's overall financial picture, but liabilities specifically denote the debts and obligations.

9. Which of these is a significant indicator of economic performance?

- A. Interest rates
- B. Tax policies
- C. Gross domestic product (GDP)**
- D. Market sentiment

Gross domestic product (GDP) is a crucial indicator of economic performance as it measures the total value of all goods and services produced over a specific time period within a country's borders. It provides an essential snapshot of economic health, reflecting the size and growth rate of an economy. An increase in GDP indicates that an economy is growing, suggesting higher production levels and greater spending by consumers and businesses, which can lead to more job creation and improved living standards. In contrast, while interest rates influence economic activities by affecting borrowing costs and spending, they are not direct measures of performance. Tax policies can also impact economic activity by influencing consumer behavior and investment decisions but, like interest rates, they do not directly measure output. Market sentiment reflects investor attitudes and expectations and can influence market prices, but it is inherently subjective and does not provide a quantifiable measure of actual economic performance. Thus, GDP stands out as the most direct and comprehensive economic performance indicator among the given options.

10. What does the dividend payout ratio represent?

- A. Common share dividends / Net income attributable to common shares**
- B. FFO / Total debt
- C. [CFO - Capital Expenditures] / Total Debt
- D. (CFO + Interest Paid) / Gross Interest

The dividend payout ratio is a financial metric that assesses the proportion of earnings a company distributes to its shareholders in the form of dividends. This ratio is calculated by dividing the total dividends paid to common shareholders by the net income attributable to those common shares. This ratio serves as an important indicator for investors, as it provides insights into the company's dividend policy, financial health, and how much of its earnings are being returned to shareholders versus being retained for reinvestment in the business. A high dividend payout ratio may suggest that a company is prioritizing returning capital to shareholders, while a lower ratio might indicate that a company is reinvesting more of its earnings back into the business for growth or other strategic initiatives. In contrast, the other options relate to different financial metrics that do not pertain specifically to dividends or their payout. For example, funds from operations (FFO) and cash flow from operations (CFO), while important in evaluating a company's cash-generating ability, are not directly related to the calculation of the dividend payout ratio. Thus, the clear focus of the dividend payout ratio on common share dividends in relation to net income attributable to those shares confirms the correctness of this answer.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cfa-level1.examzify.com>

We wish you the very best on your exam journey. You've got this!

SAMPLE