

2010 CFA Program: Level II Errata 5 March 2010

To be fair to all candidates, CFA Institute does not respond directly to individual candidate inquiries. If you have a question concerning CFA Program content, please contact CFA Institute (info@cfainstitute.org) to have potential errata investigated. Corrections below are in **bold** and new corrections will be in **red**.

The short scale method of numeration is used in the CFA Program curriculum. A billion is 10^9 and a trillion is 10^{12} . This is in contrast to the long scale method where a billion is 1 million squared and a trillion is 1 million cubed. The short scale method of numeration is the prevalent method internationally and in the finance industry.

There are a variety of ways of quoting **foreign exchange rates**: \$ to or per £ = $\$/\text{£} = \text{£} : \$$. The quote £:\$ is equivalent to a quote of $\$/\text{£}$. Authors use the two different methods of quoting currency exchange rates to ensure readers develop familiarity with both.

Volume 1

- *Study Session 3, Reading 11*: In the table of Regression Statistics on p. 289, the **Standard error should be 0.0213** (instead of 0.7320). This correction does not affect the solutions.
- *Study Session 4, Reading 18*: Near the middle of p. 589 above the R\$:won calculation, the **won per dollar rate is 1012.50** instead of 2012.50 shown in parentheses. Exhibit 1 (p. 599) and Exhibit 2 (p. 600) are identical except for the titles, because the process is the same. For clarification purposes, on the right side of Exhibit 2, **insert “Forward \$:€= 0.808”** under “Spot \$:€= ?”.
- *Study Session 4, Reading 19*: In the second line of the last paragraph of Example 9 (p. 653), **change \$1.07 to \$1.02**.

Volume 2

- *Study Session 5, Reading 21*: There are a number of corrections in this reading:
 - In the Solution to 1 (bottom half of p. 18), interest income should be **£13,500** (instead of £16,500) and unrealized gain should be **£53,000** (instead of £50,000) in the rows for “Held for trading,” “Available for sale,” and “Designated at fair value.”
 - **The above correction carries over to Solution to 2 (p. 19): Available-for-sale gain on income statement of £55,000 = (£352,000 – £350,000) + £53,000.**
 - In the table at the top of p. 47, the impact of **partial goodwill on ROE should be 13.57** (instead of 15.32). Also on p. 47, in the ninth line of the third paragraph of Section 6.4.5, **change greater to less**: “...if the recoverable amount of the cash-generating unit is less than its carrying value.”
 - In the middle of p. 54, at the end of point #1, **change “and” to “or”**. SPEs are classified as VIEs if *either* condition is met, not both.
 - In the Dreamworks SPE example on p. 56, currency should be in **U.S. dollars** instead of euro.
 - Make the following change at the bottom of p. 59: “From a ratio perspective, Odena’s ~~debt to equity and~~ equity to total assets ratios would be lower, but its **debt to equity and** current ratio would be higher.
 - In the SPE Balance Sheet at the bottom of p. 60, Total Liabilities and Equity should sum to **€60,000,000** (instead of 50 million).

- In the first line of problem 28 (p. 73), **change 2008 to 2009**.
- In the third line of the solution to 27 (p. 77), Boswell's depreciation and amortization should be **£92** instead of £46.
- *Study Session 6, Reading 22:* There are a number of corrections in this reading:
 - There is a **deletion and an insert** in the last paragraph on p. 89: "Items that can decrease a company's DB pension obligation in a particular period are ~~the expected return on plan assets~~, curtailments, and settlements. Increases in a company's pension obligations are offset by earnings on the pension plan assets. Accounting standards ..."
 - In the eighth line of the third full paragraph of p. 100, **delete "in"** from "incomprehensive."
 - The last paragraph on p. 103 has a **deletion** as follows: "Annual unit credit (benefit) per service year = Value at retirement divided by Years of service = ~~(Final year's estimated salary × Benefit formula) divided by Years of service = (€0,198.56 × 0.015)/5 = €4,514.89/5 = €902.98.~~"
 - **Similar to the above correction, the 3rd and 4th lines at the top of p. 105 should read:** "Annual unit credit = Value at retirement/Years of service = ~~(Final year's estimated salary × Benefit formula) divided by Years of service = (€0,198.56 × 0.015)/5 = €13,544.68/15 = €902.98.~~"
 - At the top of p. 107, the **Solution to 1 is €9,963.84** instead of €10,963.84.
 - **At the bottom of p. 112, the 1% Decrease for CNH Global N.V. will result in Obligation of -\$90 million** (instead of -\$903 million).
 - In the middle of p. 119, the **plan assets** should appear as **\$17,515** instead of \$17,105.
 - In the third line of the third paragraph on p. 122, the excess should be **\$502 million** instead of \$512 million.
 - In Exhibit 1 at the top of p. 143, the Market Values in the left-hand column should be for 31 December **2008** and 31 March **2009**.
 - In the Solution to 7 (p. 146), the last line should reference **Exhibit 2** instead of Exh. 3.
 - In the Solution to 27 (p. 148), the **overfunding is €187 million** instead of €151 million.
 - In the Solution to 28 (p. 148), the net pension asset should be **€187 million**.
- *Study Session 7, Reading 25:* There are a number of corrections in this reading:
 - In Panel C: Statement of Cash Flows on p. 255 and again on p. 260, the fourth line should appear as + (-) **Loss (gain) on sale of noncurrent assets** (the words "gain" and "loss" should be reversed from how they currently appear). The -303 is correct on p. 260.
 - In the fifth line from the bottom of p. 287, **replace "for internal use"** with "to be marketed". The usage in the third line from the bottom remains as stated.
 - On p. 288, the seventh line of section 4.2.3.2 should read "have experienced **an increase** in this margin" Instead of "decrease".
- *Study Session 7, Reading 26:* In Exhibit 5 (p. 323), **change 'Net Income' to 'Profit from continuing operations'** with figures of 11,382 (for 2007), **9,775** (for 2006), and **8,618** (for 2005). All other numbers remain unchanged. **In the second line of Solution to 2 (p. 362), the Lease expense should be 213** (instead of 215). Calculations and the final solution are correct as shown.

Volume 3

- *Study Session 8, Reading 27:* In the solution to practice problem 48 (p. 97), **A is correct** (instead of B). The explanation is correct as shown; only the letter changes.

Volume 4

- *Study Session 10, Reading 35*: In the next-to-last line of Solution to 3 (p. 134), insert “not” before invalidate: “...horizon does **not** invalidate the use of a positive value premium ...”
- *Study Session 11, Reading 40*: There are a number of corrections in this reading:
 - The text of problem 4 (p. 359) mistakenly used a per-share figure (\$27.73) instead of the aggregate amount of dividends (\$246.6 billion). Therefore, the following changes should be made: On page 359, **replace 27.73 with 246.6**. On p. 368, in the second line of solution to 4, **replace \$1,398.38 trillion with \$12,435.7 billion**. Then in the numerator of the equation **replace 27.73 with 246.6**, giving a final solution of **\$12,435.7 billion**.
 - In the text of practice problem 8 (p. 360), the company is expected to earn an ROE of **14 percent** on its investments.
 - In the last bullet of practice problem 15 (p. 362), final growth rate will be **200 basis points** less (instead of 2 percent).
 - **In the first paragraph on p. 365, last sentence of the paragraph, Dobson is doing the analysis in January 2009 (instead of 2008).**
 - In the solution table for 15.C (p. 372), **V₄ should equal \$57.93** and the **PV of V₄ should equal \$35.52**. Below the table, V₀ should equal 1.02 + 1.07 + 1.06 + 1.05 + 35.53 = **\$39.73**.
- *Study Session 12, Reading 41*: There are a number of edits to this reading:
 - In the middle of the last paragraph of Solution to 1 (p. 400), the increase in accrued taxes and expenses should be “... \$10 million (**\$150 million – \$140 million**).”
 - In the first calculation of Solution to 2 (p. 428), the numerator should read **FCFF** (free cash flow to the *firm*) instead of FCFE.
 - **In the fifth bullet point of problem 6 (p. 435), insert “net” before “investment in assets.”**
 - **In the solution to 6 (top of p. 451), the last line of the table should be “Total value of equity” (instead of Total value of firm).**
- *Study Session 12, Reading 42*: **In the middle of p. 533, in the column headed “Year Ended 29 June 2007,” insert a 4 (instead of blank) in the row labeled “Interest.”** Equation 8 (p. 548) for harmonic mean **should have n in the numerator** instead of 1. In the data provided for Practice Problem 12 (p. 563), the **profit margin on sales should be 10.24** percent instead of 10.9. In the stem of 12.B, **insert “trailing”** before P/E (“What trailing P/E ...”). Using 10.24 profit margin instead of 10.9, the solution to 12.B (top of p. 570) becomes $P_0/S_0 = 0.0747/0.025 = 3.0$, and the justified P/S of 3.0 is carried to the third line of Solution 12.C “(3.0 versus 2.9).”
- *Study Session 12, Reading 43*: There are a number of corrections in this reading:
 - At the top of p. 592, in the sixth bullet point, Rosato’s forecast of 2008 EPS should be **TWD 5.556** instead of 5.566.
 - In the second line of Example 10 (p. 595), change “after 2027” to “**in 2027 and beyond.**” In the first line after the first formula, **delete “percent”** after 15.5714.
 - **Delete practice problems 16 and 17** (pp. 619, 620) and their solutions (pp. 625, 626). These problems are no longer assigned.
- *Study Session 12, Reading 44*: Make the following changes to Practice Problem 4 (p. 677):
 - Replace ‘Free cash flow to firm’ with ‘**Normalized earnings** of firm’.
 - Replace ‘Long-term growth rate of free cash flow’ with ‘‘Long-term growth rate of **residual income**’.

And make the following changes to Solution 4 (p. 684):

- 4.A: In the first line, replace ‘total return’ with ‘**normalized earnings**’. The last sentence should begin: “The intangibles value is \$**4,830,000** based on \$**483,000** of **year-ahead residual** income available to the intangibles ...”
- 4.B: Replace \$4,600,000 with \$**4,830,000** and \$12,100,000 with \$**12,330,000**.

Volume 5

- *Study Session 13, Reading 47*: A number was omitted from the fourth line above the table on p. 88. The new number of shares required is $Y_2 = x_2 F_2 / (1 - F_2) = 3,858,824 (0.18) / (1 - 0.18) = 847,059$. The last line of the **Solution to 9** (p. 114) should show **plus instead of minus: (20+45+50)]**.

Volume 6

- *Study Session 17, Reading 60*: In the solution to 3.A, the last equation on p. 235 **should read $p =$** (instead of $\pi =$). It is the price of the put.
- *Study Session 17, Reading 61*: There is no standard notation in industry practice for the discount or present value factors. In exam questions, the notation of the reading will not be used. For the sake of consistency of notation within this reading, please make the following changes:
 - p. 266: Replace $B_{60}(30)$, $B_{60}(120)$, $B_{60}(210)$, and $B_{60}(300)$ with $B_{60}(\mathbf{90})$, $B_{60}(\mathbf{180})$, $B_{60}(\mathbf{270})$ and $B_{60}(\mathbf{360})$ respectively.
 - p. 267 Solution to B: Replace $B_{90}(90)$ and $B_{90}(270)$ with $B_{90}(\mathbf{180})$ and $B_{90}(\mathbf{360})$ respectively.
 - p. 271: Replace $B_{60}^{SF}(30)$, $B_{60}^{SF}(120)$, $B_{60}^{SF}(210)$, and $B_{60}^{SF}(300)$ with $B_{60}^{SF}(\mathbf{90})$, $B_{60}^{SF}(\mathbf{180})$, $B_{60}^{SF}(\mathbf{270})$ and $B_{60}^{SF}(\mathbf{360})$ respectively.
 - p. 273 Solution to B: Replace $B_{90}^{\text{€}}(90)$ and $B_{90}^{\text{€}}(270)$ with $B_{90}^{\text{€}}(\mathbf{180})$ and $B_{90}^{\text{€}}(\mathbf{360})$ respectively.
 - p. 313 Solution 11.A: Replace $B_0(180)$, $B_0(360)$, $B_0(540)$, and $B_0(720)$ with $B_0(\mathbf{90})$, $B_0(\mathbf{180})$, $B_0(\mathbf{270})$ and $B_0(\mathbf{360})$ respectively.
 - p. 314 Solution 12.A: Replace $B_{180}(180)$, $B_{180}(360)$, and $B_{180}(540)$ with $B_{180}(\mathbf{360})$, $B_{180}(\mathbf{540})$, and $B_{180}(\mathbf{720})$ respectively.
 - p. 315 Solution 13.A: Replace $B_{90}(90)$, $B_{90}(180)$, and $B_{90}(270)$ with $B_{90}(\mathbf{180})$, $B_{90}(\mathbf{270})$, and $B_{90}(\mathbf{360})$ respectively.

Note that no calculations or solutions change as a result of the changes in notation.