2020 CFA Program: Level I Errata
18 May 2020

If you find something in the curriculum that you think is in error, please submit full details via the form at https://cfa.is/Errata.

- The eBook for the 2020 curriculum is formatted for continuous flow, so the text will fit all screen sizes. Therefore, eBook page numbering—which is linked to section heads—does not match page numbering in the print curriculum.
- Corrections below are in bold, and new corrections will be shown in red; page numbers shown are for the print volumes.
- 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.

Volume 1
Reading 1
- The authors for this reading (page 5 of print) should include Colin McLean, MBA, SIA, FSIP (SVM Asset Management, United Kingdom), and Nitin Mehta, CFA (United Kingdom).

Reading 2
- In Practice Problem 32 (page 182), the second sentence should read, “Local is currently not listed on a stock exchange and...”

Reading 6
- In Table 4 in Example 18 (page 341 of print), row 2013, column $(1 + g)$, should read $8.87/7.35 = 1.206803$.

Reading 7
- In the solution to Example 3 (page 389 of print), there is a plus sign missing between 6.81 and 2.32. The calculation should read $(5.44 + 5.70 + 10.05 + 9.94 + 7.43 + 5.01 + 6.81 + 2.32 + 9.14 + 7.20 − 1.35 + 1.68 + 8.16 + 5.37 + 4.46)/15 = 187.36/15 = 5.82\%$.
- In the Solution to 2 in Example 5 (page 395 of print), the first sentence should read as follows: “For the group $n = 6$, an even number...”
- In the Solution to 2 in Example 7 (page 400 of print), the minus sign in the calculation for R-bar should be a plus sign: $(34.90 + 6.13 + 2.69 + 11.66 + 21.77)/5 = 77.15/5 = 15.43\%$.
- In Solution to 4 in Example 7 (page 401 of print), “6.18” should be “16.18”
- In the Solution to 2 in Example 11 (page 415 of print), there is an extraneous calculation. The fourth, fifth, sixth, and seventh lines should be deleted.
- In Practice Problems 15 and 16, the text of the question does not match the time frames of the exhibits. Therefore, Question 15 (page 443 of print) should be “The median annual
return from portfolio creation to **Year 5** for:” and Question 16 should be “The portfolio return for **last year** is closest to.”

**Reading 10**
- In Equation 15 (page 482 of print), the summation should be over $t = 1$, not $i = 1$.
- In the footnote 18, in section 4 (page 588 of print), footnote 18 should reference footnote 5.

**Reading 11**
- In Exhibit 12 (page 646 of print), the first number in the row Sharpe Ratio ($X$) should be 0.68 and not 0.65.

**Volume 2**

**Reading 12**
- In Example 1 (page 17 of print), in the Solution to 1, the term in parentheses “.0005” should be “0.0005”
- The solution to 25 (page 59 of print) should read “C is correct. The firm should shut down production when marginal revenue is less than or equal to average variable cost.”

**Reading 13**
- In Section 5.1, second to last paragraph before 5.2, in factor 6 (p. 91 of print), second to last sentence should be: “If OPEN had held crude oil prices down before $30 per barrel, there would not have been a viable economic argument to develop US shale oil fields through tracking or expand extraction from Canada’s tar sands.”

**Reading 14**
- In Example 2, final row of the second table (page 125 of print), the Implicit GDP price deflator for 2016 is 113.9. The final sentence in the example should state, “This shows that Canada experienced a very low rate of inflation in 2016.”
- In Exhibit 11 (page 139 of print), the vertical axis should not be labelled Real Interest Rate. It should be labelled “$ Balance”.
- In Example 5, Solution to 4 (page 142 of print), the second line for “Change in ($S – I$)” should read $0.0244(500) = 12.2$
- Practice Problem 9 (page 189 of print) should read, “If the GDP deflator values for year 1 and year 3 were 190 and 212.8, respectively, which of the following best describes the annual growth rate of the overall price level?”

**Reading 15**
- In Section 4.2.1, in the paragraph that begins “Exhibit 2 shows recent episodes of disinflation in selected countries around the world” (page 224 of print), the 4th sentence should read, “In Exhibit 2, the annual inflation rates in most **countries** around 1980 ranged between...”

**Reading 16**
- In Exhibit 14 (page 368 of print), in the 1970 column, the item “Income receipts” should be 11,747
Volume 3

Reading 19

- In Section 3.1.2.1, paragraph beginning “Next, operating profit is increased by Volkswagen’s share...” (p. 19 in print), the first sentence has an instance of €23 million which should be €23 billion: “Next, operating profit is increased...and by interest expense of €23 billion, resulting in profit (earnings) before tax of €13.9 billion.”

Reading 21

- Near the end of Section 7 (page 112 of print), in the paragraph that begins “AB InBev’s gross profit (shown in Exhibit 1)...”, the last sentence should read “However, AB InBev’s profit margin was **approximately constant between 2015 and 2016.**”
- In practice problem 12 (page 120 of print), the question stem should refer to Question 11, not 16.

Reading 22

- In Section 3.1.2 (page 135 of print), after the sentence “For example, SAP Group discloses that its other financial assets consist of items such as time deposits, other receivables, and loans to employees and third parties,” please insert the following sentence: **“These do not fall into marketable securities and thus are more properly treated under trade receivables.”**
- In Example 3, under Solution (page 147 of print), for Project 2, the calculation of “Amount Capitalized as an Asset (€’000)” should be $(620 + 320 + 470) = 1,410$
- In 6.1, the text introducing Exhibits 14 and 15 (page 158 of print), the third sentence of the paragraph that begins “Exhibits 14 and 15 present...” should read: “SAP’s balance sheet also indicates that the company has €1,591 **million** of treasury shares, and the notes to the financial statements disclose...”
- In practice problems 29 and 30 (page 177 in print), some clarification is needed on where to find the referenced exhibits: “29. Using the information presented in Exhibit 4 of the reading, ...” and “30. Using the information presented in Exhibit 14 of the reading,”
- Practice Problem 52 (page 368 of print) should state “Inventory levels decreased from 2017 to **¥19,660** in 2018 for all the following reasons...”

Reading 23

- In the table in Example 6 (page 206 of print), the second column heading should be **12/31/2017**, and the third column heading should be **12/31/2018**.
- In the chart in Example 9 (page 220 of print), under Financing Activities, the three numbers in the row “Payments for dividends and dividend equivalents” should each be negative: −5.6%, −5.6%, and −4.9%

Reading 25

- In Section 4.2, Example 5 (p. 327 in print), the table in Solution to 1 needs two corrections. The entry for From Note 1.D (LIFO reserve) for 2017 should be **1,924** and the entry for Total inventories (FIFO method) for 2017 should be **11,942**.
- In Practice Problem 53 (page 368 of print), answer choice C should say “Management expects a further downturn in sales during **2019**.”
Reading 27
- In Example 3 (page 460 of print), the table under “Solutions” has an error. It should appear as follows:

<table>
<thead>
<tr>
<th></th>
<th>Carrying Amount (€)</th>
<th>Tax Base (€)</th>
<th>Temporary Difference (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Donations</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2. Interest received in advance</td>
<td>300,00</td>
<td>0</td>
<td>(300,000)</td>
</tr>
<tr>
<td>3. Rent received in advance</td>
<td>10,000,000</td>
<td>0</td>
<td>(10,000,000)</td>
</tr>
<tr>
<td>4. Loan (capital)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Interest paid</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Reading 28
- Question 21 (p. 525 of print) should be replaced with “Compared to using a finance lease with a term longer than one year, a lessee that makes use of an operating lease will most likely report lower: A. debt. / B. rent expense. / C. interest expense.
  Solution: C is correct. A lessee with an operating lease reports rent expense but no interest expense related to the lease, while a lessee with a finance lease will report interest expense but no rent expense. Thus, the operating lease will result in lower interest expense and higher rent expense compared to a finance lease. Both operating and finance leases require the recognition of a lease liability, so debt should be the same in both cases.
- Question 22 (p. 525) should be deleted.
- The justification for Question 24 (p. 534) should read: “A is correct. A sales-type lease treats the lease as a sale of the asset, and revenue is recorded at the time of sale equal to the value of the leased asset. Under a direct financing lease, only interest income is reported as earned. Under an operating lease, revenue from lease receipts is reported when collected.”
- Question 25 (p. 526) should be deleted.
- In Question 26 (p. 526), the C option should read “term is for the majority of the economic life of the leased asset.”
- Questions 27, 28, and 30 (p. 526) should be deleted.
- In Question 29 (p. 526) the last sentence should read, “Based on this information, the value of the lease liability reported on the company’s balance sheet at lease inception is closest to:” The solution should read, “A is correct. Under the revised reporting standards under IFRS and US GAAP, a lessee must recognize an asset and a lease liability at inception of each of its leases (with an exception for short-term leases). The lessee reports a “right-of-use” (“ROU”) asset and a lease liability, calculated essentially as the present value of fixed lease payments, on its balance sheet. Thus, at lease inception, the company will record a lease liability on the balance sheet of €47,250,188.”
- Question 31 (p. 527) should be deleted.
Volume 4

Reading 32
- In Section 4.5, in the paragraph below Exhibit 5 (print page 57), the following formula should read as: “The average book value for this asset is ($200,000 + $0) / 2 = $100,000.”

Reading 33
- In Section 3.2, Example 5 (print page 87), the first sentence should read: “Consider…with a $3.75 cumulative preferred stock dividend, for which there are 600,000 shares outstanding.”
- In Example 12 (print page 101), the solution should read: “= 0.032(1.4286) = 0.0457 or 4.57 percent”

Reading 38
- In practice problem 19, “reacts gradually to” to “changes gradually after”

Reading 41
- In the solutions to Example 7 (page 461 of print), the solution to 1 is €185.70 and the solution to 2 is €136.37

Volume 5

Reading 42
- In Section 4.2.4 (page 32 of print), the second sentence should read, “Such bonds are favored by investors who are concerned that the issuer may face potential cash flow problems in the future.”
- In Section 5.3, in the paragraph that begins with “Generally…” (page 41 of print), the following sentence should read as: “If the convertible bond includes a call provision and the conversion value is above the current bond price…”
- Practice Problem 9 and its solution (page 46-47 and 51 of print) should be removed.

Reading 44
- In Example 5 (page 121 of print), the years in the solution need to be updated: 19 March 2019 and 18 June 2019.

Reading 46
- In Example 12 (print page 269), the solutions should read as below.
• In the calculation just before Example 13 (page 273 of print), the second row should read 0.145815 + 0.01010811.

Reading 48

• In practice problem 46 (page 443 of print), the word “profile” should be “profit”: “Determine the value at expiration and the profit for a buyer...”

• In the solutions to Practice Problems 53, 54, and 55 (page 453 of print), the following changes should be made: “C is correct. \( P_T = \max (0, X - S_T) = \max \ldots \)” And in the second line of each solution, “\( C_T - C_0 \)” should be “\( P_T - P_0 \)”

Reading 49

• The first sentence after Equation 5 (page 472 of print) should read, “From Equation 5, we can see that the forward price...”

Volume 6

Reading 53

• In Example 3 (page 203 of print), there is a typo in the solution, in the following line, –0.275 should be amended to –0.75 as shown:
  
  Return with \( w_1 = -0.275 = (-0.75 \times 7\%) + (1.75 \times 15\%) = 21.0\% 

• In Section 3.1.1, Solution to 2 (p. 206 of print), the final sentence should be “Because only systematic risk is priced or receives a return, the expected rate of return must be higher for Asset A.”