

CIMAPRA19-F02-1^{Q&As}

F2 - Advanced Financial Reporting

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QUESTION 1

An entity has declared a dividend of \$0.12 a share. The cum dividend market price of one equity share is \$1.40. Assuming a dividend growth rate of 7% a year, what is the entity's cost of equity?

- A. 17.0%
- B. 8.6%
- C. 16.2%
- D. 9.4%

Correct Answer: A

QUESTION 2

Which of the following would cause a deferred tax balance to be included in the statement of financial position for an entity?

- A. Expenses in the statement of profit or loss which are not allowable for tax creating a permanent difference.
- B. The acquisition of land for which there is no tax depreciation.
- C. The acquisition of plant and equipment a year ago where the tax depreciation rate is different to the accounting depreciation rate.
- D. Impairment of goodwill that arose on the acquisition of a subsidiary entity.

Correct Answer: C

QUESTION 3

GH acquired 3,000,000 of the 12,000,000 equity shares of JK. All shares carried equal voting rights and no other single shareholder of JK held more than 10% of the equity shares. GH has the power to participate in the financial and operating

policy decisions but not control them.

Based on the information provided above, how would GH's investment in JK be accounted for in its consolidated financial statements?

- A. Associate
- B. Joint venture
- C. Joint arrangement
- D. Financial asset

Correct Answer: A

QUESTION 4

CORRECT TEXT

LM acquired 15% of the equity share capital of ST on 1 January 20X6 for \$18 million. LM acquired a further 50% of the equity share capital of ST for \$50 million on 1 January 20X7 when the fair value of ST's net assets was \$82 million. The

original 15% investment in ST had a fair value of \$20 million at 1 January 20X7. The non controlling interest in ST was measured at its fair value of \$30 million at the date control in ST was acquired.

Calculate the goodwill arising on the acquisition of ST that LM included in its consolidated financial statements at 31 December 20X7.

Give your answer to the nearest \$ million.

\$? million

A. 18, 18000000

Correct Answer: A

QUESTION 5

Which of the following reduce the usefulness of ratio analysis when comparing entities that operate in the same industry? Select ALL that apply.

- A. The revenue figure being aggregated from many different activities and sources.
- B. Accounting estimates in respect of depreciation being different between entities.
- C. The effect of a material and unusual item being disclosed separately in the notes.
- D. An entity adopting a policy of revaluing its non current assets.
- E. Ratio calculations being based on historical information.
- F. Ratios being quick and easy to calculate.

Correct Answer: ABDE

QUESTION 6

GH is a listed entity which holds equity shares in one subsidiary and one associate.

Information extracted from the most recent financial statements is as follows: What is the interest cover for the year?

- A. 9.6 times
- B. 10.7 times

C. 11.7 times

D. 8.5 times

Correct Answer: A

QUESTION 7

RST sells computer equipment and prepares its financial statements to 31 December.

On 30 September 20X5 RST sold computer software along with a two year maintenance package to a customer. The customer is given the right to return the goods within six months and claim a full refund if they are not satisfied with the computer software. The risk of return is considered to be insignificant for RST.

How should the revenue from this transaction and the right of return be recognised in the financial statements for the year ended 31 December 20X5?

A. Recognise 100% of the revenue from both the sale of goods and the maintenance contract and create a provision for the anticipated level of returns.

B. Do not recognise any revenue from the sale of goods or the maintenance contract and do not create a provision for the anticipated level of returns.

C. Recognise 12.5% of the revenue from both the sale of goods and the maintenance contract and do not create a provision for the anticipated level of returns.

D. Recognise 100% of the revenue from the sale of goods, 12.5% of the revenue from the maintenance contract and create a provision for the anticipated level of returns.

Correct Answer: D

QUESTION 8

Ratios calculated from the financial statements of ST Group for the years ended 31 August 20X7 and 20X6 are as follows:

	20X7	20X6
Gross profit margin	65%	59%
Operating profit margin	43%	42%

Which of the following would have contributed to the movements in these ratios?

- A. During 20X7 ST Group acquired an associate which made a relatively small profit for the year.
- B. ST Group extended its customer base which resulted in an increase in the volume of sales during 20X7.
- C. During 20X7 ST Group increased the useful life of its vehicles to five years from four and adjusted the depreciation charge accordingly.
- D. The fair value of an investment acquired in 20X7 and classified as fair value through profit or loss has increased in value by the year end.

Correct Answer: C

QUESTION 9

Which of the following statements are incorrect regarding identifiable assets? Select ALL that apply.

- A. Deferred tax assets and liabilities are not classed as identifiable assets
- B. Contingent assets and liabilities are examples of exceptions to the rules governing identifiable assets
- C. To be identifiable assets must be separable from the subsidiary
- D. Assets can also be identifiable if they arise from contractual or legal rights
- E. Net assets must be identifiable at acquisition

Correct Answer: AB

QUESTION 10

ST has in issue unquoted 7% debentures which were issued at par and are redeemable in 1 year's time. These debentures cannot be traded. The yield to maturity on these debentures has been calculated at 5%.

Which of the following would explain why the yield to maturity is lower than the coupon?

- A. ST will benefit from the tax relief on the interest payment.
- B. The debentures will be redeemed at a discount to their par value.
- C. The debentures will be redeemed at their par value.
- D. The market value of the debentures must be higher than their par value.

Correct Answer: B

QUESTION 11

On 1 January 20X4 JK had 1,500,000 ordinary shares in issue. On 1 September 20X4 JK issued 600,000 ordinary shares at the market value of \$2.50 a share. For the financial year ended 31 December 20X4 the statement of profit or loss shows profit before tax of \$625,000 and profit after tax of \$500,000.

What is the earnings per share for the year ended 31 December 20X4?

- A. 23.8 cents
- B. 36.8 cents
- C. 26.3 cents
- D. 29.4 cents

Correct Answer: D

QUESTION 12

CORRECT TEXT

CD has 200,000 equity shares with a current market value of \$2.50 each. The annual dividend of \$0.50 a share is about to be paid.

CD also has redeemable debt with a nominal value of \$100,000. This is currently trading at \$90 for each \$100 of nominal value.

The cost of equity is 20% and the post tax cost of debt is 6%.

What is CD's weighted average cost of capital?

Give your answer in % to one decimal place.

? %

- A. 17.4, 17.42, 17.43, 17.40

Correct Answer: A

QUESTION 13

Which TWO of the following are true in relation to IAS21 The Effects of Changes in Foreign Exchange Rates when consolidating an overseas subsidiary?

- A. A current period exchange gain or loss is shown within the consolidated statement of comprehensive income within other comprehensive income.
- B. Goodwill is re-translated at the end of each reporting period and reflected at the period end exchange rate in the consolidated statement of financial position.
- C. Assets and liabilities of the subsidiary are translated at each reporting date using the average exchange rate for the period.
- D. Goodwill is reflected in the consolidated statement of financial position translated at the exchange rate on the date of acquisition.
- E. The statement of profit or loss of the subsidiary is translated for the reporting period using the closing exchange rate.

Correct Answer: AB

QUESTION 14

Which of the following is a related party according to the definition of a related party in IAS24 Related Party Disclosures?

- A. Major customer
- B. Provider of finance
- C. Managing Director
- D. Major supplier

Correct Answer: C

QUESTION 15

If you were asked to express the overall performance of an entity as a percentage of its total investment in net assets which of the following ratios would you calculate?

- A. Return on capital employed
- B. Asset utilisation
- C. Dividend yield
- D. Non-current asset turnover

Correct Answer: A

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