CIMAPRA19-F02-1 Q&As

F2 - Advanced Financial Reporting

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QUESTION 1

Following a wedding in October 20X0 ten people contracted food poisoning from eating food cooked by the wedding caterer PQ. At 31 December 20X0 PQ was advised by its legal advisors that a liability was possible but not probable and the

incident was disclosed as a contingent liability at that date.

As the result of developments in the case, which is still not settled, PQ was advised that it is now probable, as at 31 December 20X1, that they will be found liable and will therefore have to pay damages of unknown value.

Which of the following would indicate that in the financial statements of PQ for the year ended 31 December 20X1 this should still be recognised as a contingent liability rather than a provision?

A. There is no reliable estimate of the cost.

B. A present obligation exists as a result of a past event.

C. It is probable that there will be an outflow of economic resources to settle the case.

D. The case has not yet been settled.

Correct Answer: A

QUESTION 2

AB sold the majority of its operating equipment to LM for cash on 30 December 20X9 and then immediately leased it back under an operating lease.

AB used the cash proceeds from the sale to reduce its long term borrowings significantly. No early repayment charge was levied by the lender.

Which of the following statements is true in respect of AB\\'s ratios calculated at 31 December 20X9?

A. AB\\'s return on capital employed would be lower as a result of this sale being recorded.

B. AB\\'s current ratio would be lower as a result of this sale being recorded.

C. AB\\'s non-current asset turnover would be lower as a result of this sale being recorded.

D. AB\\'s gearing ratio would be lower as a result of this sale being recorded.

Correct Answer: D

QUESTION 3

LM acquired 80% of the equity shares of ST when ST\\'s retained earnings were $50 million. The fair value of the net assets of ST included a contingent liability with a fair value of $100 million at the date of acquisition and a fair value of $40 million at 31 December 20X6. No other fair value adjustments were required at the date of acquisition.

LM and ST had retained earnings of $200 million and $80 million respectively at 31 December 20X6.

The consolidated retained earnings of LM at 31 December 20X6 were:

A. $164 million

B. $176 million

C. $272 million

D. $284 million

Correct Answer: C

QUESTION 4

CORRECT TEXT

EF has redeemable 10% bonds which are currently trading at $94.00 for each $100 of nominal value. The bonds can be redeemed at par in five years\\' time. The corporate income tax rate is 22%.

The present value of the cash flows associated with $100 nominal value of these bonds at a discount rate of 7% is $9.28.

Calculate the post tax cost of debt.

Give your answer as a percentage to one decimal place.

%

A. 9.4, 9.3, 9.39, 9.40

Correct Answer: A

QUESTION 5

Which THREE of the following actions should improve the cash position of an entity?

A. Substituting a bonus issue for the final dividend.

B. Selling non current assets and leasing them back under operating leases.

C. Implementing an efficient inventory ordering system.

D. Revaluing all non-current assets.

E. Revising the depreciation policy of non-current assets.

F. Offering extended credit terms to existing customers.

Correct Answer: ABC