



CIMAPRA19-F02-1^{Q&As}

F2 - Advanced Financial Reporting

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**QUESTION 1**

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 2

HJ is currently in dispute with an employee, who is claiming \$400,000 in a legal case against them.

HJ's legal advisors have stated that it is probable that they will lose the case and will have to pay the amount claimed.

Also, HJ are claiming \$250,000 from a supplier of defective goods and the legal advisors have stated that it is probable that HJ will be successful in this claim.

What is the correct accounting treatment for these two items in HJ's financial statements?

- A. Provide for the \$400,000 potential outflow and disclose the \$250,000 potential inflow.
- B. Provide for the \$400,000 potential outflow and recognise the \$250,000 potential inflow.
- C. Disclose the \$400,000 potential outflow and disclose the \$250,000 potential inflow.
- D. Disclose the \$400,000 potential outflow and recognise the \$250,000 potential inflow.

Correct Answer: A

QUESTION 3**CORRECT TEXT**

GH's financial statements show the following:

What is the value of the dividend received from the associate to be included in GH's consolidated statement of cash flows for the year?

Give your answer to the nearest \$000.

\$? 000



A. 300, 300000

Correct Answer: A

QUESTION 4

XY purchased \$100,000 of quoted 8% bonds in the current year which it intends to hold until redemption.

Which of the following identifies the correct classification and subsequent measurement basis for this financial instrument?

- A. A loans and receivables financial asset subsequently measured at fair value with gains and losses in reserves.
- B. A held to maturity financial asset subsequently measured at amortised cost.
- C. A loans and receivables financial asset subsequently measured at amortised cost.
- D. A held to maturity financial asset subsequently measured at fair value with gains and losses in reserves.

Correct Answer: B

QUESTION 5

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 6

GH owned 70% of the equity share capital of XY at 1 January 20X6. GH acquired a further 20% of XY's equity share capital on 31 December 20X6 for \$430,000. Non controlling interest was measured at \$600,000 immediately prior to the 20% acquisition.

Which of the following amounts will GH debit to non controlling interest when the 20% acquisition is adjusted for in its consolidated financial statements at 31 December 20X6?

- A. \$400,000



- B. \$120,000
- C. \$200,000
- D. \$430,000

Correct Answer: A

QUESTION 7

CORRECT TEXT

Information extracted from JK's statement of financial position for the year ended 31 May 20X5 is as follows:

Calculate the gearing ratio (Debt/Equity measured as a percentage) at 31 May 20X5.

Give your answer to one decimal place.

? %

- A. 58.4, 58, 58.44, 59, 58.5, 58.0

Correct Answer: A

QUESTION 8

A group presents its financial statements in A\$.

The goodwill of its only foreign subsidiary was measured at B\$100,000 at acquisition. There have been no impairments to this goodwill.

Exchange rates (where A\$/B\$ is the number of B\$'s to each A\$) are as follows:

	A\$/B\$
At acquisition date	1.50
Closing rate at 31 December 20X4	1.32

The value of goodwill to be included in the group's statement of financial position in respect of its foreign subsidiary for the year ended 31 December 20X4 is:

- A. A\$75,758.
- B. A\$66,667.
- C. A\$150,000.
- D. A\$132,000.



Correct Answer: A

QUESTION 9

Which of the following statements about ST is true?

- A. The return on the investment in associate on an annual basis is 14%.
- B. The effective tax rate incurred by ST has remained largely the same.
- C. The increase in administrative expenses is in line with the increase in revenues.
- D. The ratio of distribution costs to revenue has increased significantly.

Correct Answer: B

QUESTION 10

Which THREE of the following would typically indicate a finance lease?

- A. An asset with a useful life of ten years is being leased for ten years.
- B. The lessor is responsible for the annual maintenance of the asset.
- C. The lessee has the option to buy the asset at the end of the lease for \$1.
- D. The lease contract for an asset includes an upgrade to the asset every two years.
- E. A leased asset has been specifically modified for the lessee's use.

Correct Answer: ACE

QUESTION 11

KL issued \$100,000 of 6% convertible debentures at par on 1 January 20X7. These debentures are redeemable at par or can be converted into 5 shares for each \$100 of nominal value of debentures on 31 December 20X9.

The share price on 1 January 20X7 is \$18 a share. The share price is expected to grow at a rate of 7% a year.

The expected redemption value for each \$100 nominal value of debentures on the date of conversion is:

- A. \$110.25
- B. \$103.04
- C. \$100.00
- D. \$90.00

Correct Answer: A

**QUESTION 12**

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 13

The yield to maturity of a redeemable bond is calculated as the internal rate of return of the relevant cash flows associated with the bond.

Which TWO of the following are considered relevant cash flows in this calculation?

- A. The annual interest payments net of tax relief.
- B. The redemption value of the bond at the date of redemption.
- C. The market value of the bond now.
- D. The nominal value of the bond now.
- E. The value of the conversion premium on conversion to equity shares.

Correct Answer: BC

QUESTION 14

CORRECT TEXT

LK acquired 100% of the equity shares of TU on 1 January 20X4. LK disposed of 60% of TU for \$4,400,000 on 30 September 20X4. The sale proceeds reflected the fair value of TU's shares on that date.

The remaining 40% shareholding gave LK the ability to exercise significant influence over the activities of TU. TU reported profit of \$1,800,000 for the year ended 31 December 20X4 and this accrued evenly throughout the year.

Calculate the investment in associate that will be presented in LK's consolidated statement of financial position as at 31 December 20X4.



Give your answer to the nearest whole \$\'000.

\$ 000

A. 1780, 1780000

Correct Answer: A

QUESTION 15

The consolidated statement of profit or loss for VW for the year ended 30 September 20X7 includes the following:

	\$\'000
Share of profit of associate	15
Finance cost	23
Taxation expense	20
Profit for the year	75

What is VW\'s interest cover for the year ended 30 September 20X7?

A. 4.5

B. 3.3

C. 4.1

D. 5.1

Correct Answer: A

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