



# CIMAPRA19-F02-1<sup>Q&As</sup>

F2 - Advanced Financial Reporting

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**QUESTION 1**

Which of the following, in accordance with IFRS 2 Share-based Payments, are only applicable to the accounting treatment of cash settled rather than equity settled share-based payment schemes?

Select ALL that apply.

- A. The instruments in the scheme are remeasured at the end of each financial year to fair value.
- B. The instruments in the scheme are measured at the fair value at the grant date of the scheme.
- C. The credit entry in the financial statements is to liabilities.
- D. The credit entry in the financial statements is to equity.
- E. The expense of the scheme is spread to profit or loss over the vesting period.

Correct Answer: AC

**QUESTION 2**

PQ is a retail business. In recent years they have improved their financial performance and increased their revenue. The following ratios have been calculated for the years ended 31 December 20X4 and 20X3: Which of the following explanations of PQ's financial performance is consistent with these ratios?

	<b>20X4</b>	<b>20X3</b>
Gross profit margin	28.8%	25.1%
Operating profit margin	13.5%	10.0%
Administrative expenses as a percentage of revenue	6.2%	6.0%



- A. In 20X4 PQ reduced the unit selling price resulting in an increase in volumes sold and an increase in overall revenue.
- B. PQ changed suppliers early in 20X4 because the new supplier agreed to supply the same goods at a cheaper price.
- C. In 20X4 taxation legislation was amended which reduced the rate of corporate income tax by 3.5%.
- D. In 20X4 PQ sold a retail outlet resulting in a significant gain on disposal which has been deducted from administrative expenses.

Correct Answer: B

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### QUESTION 3

ST granted 1,000 share appreciation rights (SARs) to its 100 employees on 1 December 20X7. To be eligible, employees must remain employed for 3 years from the grant date. In the year to 30 November 20X8, 10 staff left and a further 20

were expected to leave over the following two years. The fair value of each SAR was \$12 at 1 December 20X7 and \$15 at 30 November 20X8.

What is the accounting entry to record this transaction for the year to 30 November 20X8?

- A. Dr Staff costs \$350,000, Cr Non-current liabilities \$350,000
- B. Dr Staff costs \$350,000, Cr Equity \$350,000
- C. Dr Staff costs \$280,000, Cr Non-current liabilities \$280,000
- D. Dr Staff costs \$280,000, Cr Equity \$280,000

Correct Answer: A

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### QUESTION 4

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

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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### QUESTION 5



XY owned 80% of the equity share capital of AB at 1 January 20X5. XY disposed of 20% of AB's equity share capital on 31 December 20X5 for \$200,000. The non controlling interest was measured at \$140,000 immediately prior to the disposal.

What was the amount of the credit to retained earnings that XY will process in respect of this disposal when it prepares its consolidated financial statements at 31 December 20X5?

- A. \$60,000
- B. \$140,000
- C. \$200,000
- D. \$80,000

Correct Answer: A

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#### QUESTION 6

When preparing a consolidated statement of cash flows, which of the following describes the correct presentation of an associate's dividends?

- A. Dividends received from the associate in cash flows from investing activities
- B. Dividends received from the associate in cash flows from operating activities
- C. Dividends paid by the associate in cash flows from financing activities
- D. Dividends paid by the associate in cash flows from investing activities

Correct Answer: A

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#### QUESTION 7

JK is seeking to raise finance for a project and the directors would prefer to take out a fixed rate bank loan repayable over the next 5 years. The project will increase the profit of JK even after taking into account the additional interest costs. Which of the following statements about the use of a bank loan in this situation is true?

- A. In the long term servicing a bank loan is more expensive than servicing equity shares due to the higher risk for the lender.
- B. The interest on a bank loan is deducted from profit before dividends can be declared to equity shareholders each year.
- C. Because the assets of a business belong to the equity shareholders, a bank loan should NOT be secured on the assets of the business.
- D. A bank loan has high issue costs compared to an issue of equity shares because it takes longer to arrange.

Correct Answer: B

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**QUESTION 8****CORRECT TEXT**

AB acquired its subsidiary on 1 January 20X7 when the fair value of net assets was the same as book value with the exception of property, plant and equipment that had a fair value \$500,000 higher than carrying value.

These assets were assessed to have a remaining useful life of 5 years from the date of acquisition.

What is the net consolidation adjustment to the property, plant and equipment balance at 31 December 20X9?

Give your answer to the nearest whole number (in \\\\$000s).

\$?

A. 200000, 200

Correct Answer: A

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**QUESTION 9**

AB owned 80% of the equity share capital of FG at 1 January 20X6. AB disposed of 10% of FG\\'s equity share capital on 31 December 20X6 for \$400,000. The non controlling interest was measured at \$700,000 immediately prior to the disposal.

Which of the following represents the adjustment that AB made to non controlling interest in respect of the disposal when it prepared its consolidated financial statements at 31 December 20X6?

A. Credit of \$350,000

B. Debit of \$400,000

C. Debit of \$350,000

D. Credit of \$50,000

Correct Answer: A

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**QUESTION 10**

JK has calculated its inventory holding period:

<b>31 March 20X8</b>	<b>31 March 20X7</b>
60 days	32 days

Which THREE of the following would have contributed to the above movement in inventory holding period?



- A. JK's main supplier offered a significant one-off discount for purchases made in March 20X8.
- B. In January 20X8 a major competitor entered the market in which JK operates.
- C. A substantial contract is due to be dispatched early in April 20X8.
- D. JK is enforcing stringent inventory control techniques following management instructions.
- E. JK suffered industrial action by its production staff in the period December 20X7 to February 20X8.
- F. It has been difficult to obtain one of JK's main components due to import issues with its overseas supplier.

Correct Answer: ABC

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### QUESTION 11

AB and CD are separate entities that prepare financial statements to 31 May using international accounting standards. AB and CD provide technical support services to the financial services industry and operate in the same country. The financial statements are identical except for the following:

1.

AB purchased all operating equipment, paying \$100,000, using a 5 year bank loan. The useful life of the equipment was 5 years.

2.

CD signed an operating lease agreement for all operating equipment for 5 years paying \$20,000 per year.

Both entities charge all expenses relating to the equipment to cost of sales.

From the information provided, which of the following ratios would be reliably comparable for AB and CD?

- A. Gross profit margin
- B. Return on capital employed
- C. Non current asset turnover
- D. Profit before tax margin

Correct Answer: A

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### QUESTION 12

CORRECT TEXT

WX acquired 20% of the equity share capital of MN for \$135 million in 20X5. WX acquired a further 40% of the equity share capital of MN for \$400 million on 1 October 20X8 when the fair value of the net assets of MN were \$800 million.

The fair value of the initial 20% investment in MN was \$175 million at 1 October 20X8. There has been no impairment of the investment in MN. WX uses the proportion of net assets method to value non-controlling interest at acquisition.



Calculate the goodwill arising on the acquisition of MN.

Give your answer to the nearest \$ million.

\$ ? million

A. 95, 95000000

Correct Answer: A

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### QUESTION 13

Which of the following actions would be most likely to improve an entity's gross profit margin?

A. Negotiating with trade suppliers for a bulk purchase discount

B. Offering increased credit to customers

C. Reducing administrative expenses by 10%

D. Writing down the value of obsolete inventories

Correct Answer: A

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### QUESTION 14

MNO has calculated its return on capital employed ratio for 20X4 and 20X5 as 41% and 56% respectively. Taking each statement in isolation, which would explain the movement in the ratio between the 2 years?

A. In 20X5 the average interest rate on borrowing decreased compared to 20X4.

B. In 20X4 an onerous contract was provided for and this provision did not change in 20X5.

C. In 20X5 the increase in value of MNO's head office was reflected in the financial statements.

D. In 20X4 an unused building was sold at a price in excess of its carrying value.

Correct Answer: B

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### QUESTION 15

AB owned 80% of the equity share capital of FG at 1 January 20X6. AB disposed of 10% of FG's equity share capital on 31 December 20X6 for \$400,000. The non controlling interest was measured at \$700,000 immediately prior to the disposal.

Which of the following represents the adjustment that AB made to non controlling interest in respect of the disposal when it prepared its consolidated financial statements at 31 December 20X6?

A. Credit of \$350,000

B. Debit of \$400,000



C. Debit of \$350,000

D. Credit of \$50,000

Correct Answer: A

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