CIMA F2 - Advanced Financial Reporting

1. 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.

Answer(s): A C E

---

2. LM is a car dealer that is supplied inventory by car manufacturer SQ. Trading between LM and SQ is subject to a contractual agreement. This agreement states the following:
- Legal title of the cars remains with SQ until they are sold by LM to a third party.
- Upon notification of sale to a third party by LM, SQ raises an invoice at the price agreed at the original date of delivery to LM.
- LM has the right to return any car at any time without incurring a penalty.
- LM is responsible for insuring all of the cars on its property.
When considering how these cars should be accounted for, which THREE of the following statements are true?

- [ ] A. The most significant risks attached to the cars are held by LM.
- [ ] B. The most significant risks attached to the cars are held by SQ.
- [ ] C. SQ should recognise the cars as inventory in their financial statements.
- [ ] D. LM should recognise the cars as inventory in their financial statements.
- [ ] E. SQ should recognise revenue when the cars are delivered to LM.
- [ ] F. When LM sells a car to a third party, SQ should recognise the revenue associated with that sale.

Answer(s): B C F

---

3. In the year ended 31 December 20X7, FG leased a piece of machinery. The accountant of FG had prepared the financial statements for the year to 31 December 20X7 on the basis of the lease being an operating lease.
However, following the end of year audit it has been agreed that the machinery is in fact held under a finance lease and therefore the financial statements need to be corrected. The correction will have which THREE of the following affects on the financial statements?

- [ ] A. Non-current assets will increase.
- [ ] B. Finance costs will increase.
- [ ] C. Current liabilities will increase.
- [ ] D. Non-current liabilities will decrease.
- [ ] E. Depreciation costs will decrease.
- [ ] F. Non-current assets will decrease.

Answer(s): A B C

---

4. On 1 September 20X3, GH purchased 200,000 $1 equity shares in QR for $1.20 each and classified this investment as held for trading.
GH paid a 1% transaction fee to its broker on this transaction. QR's equity shares had a fair value of $1.35 each on 31 December 20X3.
Which of the following journals records the subsequent measurement of this financial instrument at 31 December 20X3?

Debit	Investment	$30,000
Credit	Other reserves	$30,000

Debit	Investment	$27,600
Credit	Gain to profit or loss	$27,600

Debit	Investment	$30,000
Credit	Gain to profit or loss	$30,000

Debit	Investment	$27,600
Credit	Other reserves	$27,600

A. Option A

B. Option B

C. Option C

D. Option D

Answer(s): A

---

5. Which of the following defines the calculation of interest cover?

A. Profit before interest and tax divided by finance costs

B. Finance costs divided by profit before interest and tax

C. Profit after tax divided by finance costs

D. Finance costs divided by profit after tax

Answer(s): A

---

6. CORRECT TEXT
In recent years EBITDA has been adopted by large entities as a key measure of performance.
The following figures have been extracted from the financial statements of UV for the year ended 30 November 20X9:
What is EBITDA for UV for the year ended 30 November 20X9? Give your answer to the nearest $'000.

A. 61500, 61500000

Answer(s): A

---

7. Which of the following is NOT an example of an unconsolidated structured entity as defined in IFRS12 Disclosure of Interests in Other Entities?

A. A post-employment benefit plan

B. A securitisation vehicle

C. An asset-backed financing scheme

D. An investment fund

Answer(s): A

---

8. Which THREE of the following statements about preference shares are true?

- [ ] A. For an investor, preference shares carry more risk than ordinary shares.
- [ ] B. Unlike ordinary shares, preference shares may be cumulative.
- [ ] C. The characteristics of preference shares are closer to debt than equity.
- [ ] D. Preference shares cannot be issued as redeemable shares.

- [ ] E. Preference shareholders receive their dividend entitlement before the equity shareholders.

- [ ] F. Preference shareholders rank below the equity shareholders in a winding up.

Answer(s): B C E

---

9. CORRECT TEXT

The following is extracted from MN's statement of financial position at 30 September 20X1.

	$'000
Equity share capital	6,000
7% Debentures	5,000
Bank loan 20X5	4,000
Share premium	5,500
Trade payables	7,140
Retained earnings	2,610
Provisions	2,050

Calculate the gearing (measured as debt:equity) ratio of MN at 30 September 20X1.
Give your answer to one decimal place.

A. 63.8, 63.78, 63.7, 63.80

Answer(s): A

---

10. Which TWO of the following statements about bonds and their issue are true?

- [ ] A. Credit rating agencies assign risk categories to bond issues.

- [ ] B. Bonds are a form of loan capital, traded on stock exchanges.

- [ ] C. Bonds are a risk-free form of investing because they will always be repaid.

- [ ] D. All bonds have the same terms and conditions when issued.

- [ ] E. A bond issue is never underwritten because the return is fixed and guaranteed.

Answer(s): A B

---

11. KL sells luxury leather handbags and has 3 stores in exclusive shopping areas. Following years of static revenues and margins, in August 20X6 KL opened a fourth store at a busy airport terminal which is proving to be successful.
The revenue and gross profit of KL for the years ended 31 March 20X7 and 20X6 are as follows:

	20X7	20X6
	$000	$000
Revenue	2,500	2,000
Cost of sales	(1,125)	(800)
Gross profit	1,375	1,200

Which of the following would be a contributing factor to the movement in the gross profit margin of KL?

A. A worldwide shortage of leather resulting in increased prices from suppliers.

B. The opportunity to sell handbags in the airport store at a premium price.

C. KL locating a new supplier prepared to supply handbags at a cheaper price.

D. KL locating a new supplier closer to the warehouse, reducing distribution costs.

Answer(s): A

---

12. The following information relates to DEF for the year ended 31 December 20X7:
- Property, plant and equipment has a carrying value of $3,500,000 and a tax written down value of $2,500,000.
- There are unused tax losses to carry forward of $1,250,000. These tax losses have arisen due to poor trading conditions which are not expected to improve in the foreseeable future.
- The corporate income tax rate is 25%.
In accordance with IAS 12 Income Taxes, the financial statements of DEF for the year ended 31

December 20X7 would recognise deferred tax balances of:

	$
Liability	1,000,000
Asset	1,250,000

	$
Liability	250,000
Asset	Nil

	$
Liability	250,000
Asset	312,500

	$
Liability	1,000,000
Asset	Nil

A. Option A

B. Option B

C. Option C

D. Option D

Answer(s): A

---

13. At 31 October 20X1 RS has in issue 10% debentures 20X8 with a carrying value of $350,000. Extracts from its statement of profit or loss for the year ending 31 October 20X7 are as follows:

	$'000
Gross profit	3,422
Distribution costs	(2,121)
Administration expenses	(986)
Share of profit of associate	110
Finance costs	(35)
Profit before tax	390
Profit for the year	345

What is the interest cover for RS for the ended 31 October 20X7?

A. 9.0 times

B. 11.1 times

C. 10.0 times

D. 8.0 times

Answer(s): A

---

14. CORRECT TEXT

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

	$000
Equity share capital	1,000
5% Debenture 20X9	9,000
Trade payables	4,600
Warranty provision	2,400
Deferred tax provision	3,700
Corporate income tax payable	1,200
Retained earnings	10,900
Revaluation reserve	3,500

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

Answer(s): A

---

15. EFG is preparing its financial statements to 31 March 20X8. During the year ended 31 March 20X7, EFG purchased a piece of land for $1 million which is used as the staff car park. EFG has a policy of revaluing land, in accordance with International Accounting Standards, and at 31 March 20X8, accounted for a substantial increase in its value.
Revenue and operating profit has remained constant over the 2 years.
When comparing EFG's financial statements for the year ended 31 March 20X7 with those of 20X8, which THREE of the following would be expected?

- [ ] A. Increase in profit before tax.
- [ ] B. Increase in other comprehensive income.
- [ ] C. Increase in return on capital employed.
- [ ] D. Decrease in return on capital employed.
- [ ] E. Increase in net asset turnover.
- [ ] F. Decrease in net asset turnover.

Answer(s): B D F

---

16. BC are currently seeking to establish an accounting policy for a particular type of transaction. There are four alternative ways in which this transaction can be treated. Each treatment will have a different outcome on the financial statements as follows:
- Treatment one means that the financial statements will be easier to prepare. - Treatment two will give a fair representation of the transaction in the financial statements. - Treatment three will maximise the profit figure presented in the financial statements. - Treatment four means that the financial statements will be more easily understood by shareholders.
Which accounting treatment should BC adopt?

A. One

B. Two

C. Three

D. Four

Answer(s): B

---

17. LM has made the following share purchases during the year:
- Purchased 55% of the equity share capital of OP.
- Purchased 45% of the equity share capital of QR. LM have the power to appoint the majority of board members on the QR board.
- Purchased 30% of the equity share capital of ST. LM is represented by one director on the main board of ST which has five members in total. The other 70% of ST's equity share capital is owned by a single company, UV.

The Managing Director has told you that OP has performed well, but both QR and ST have not performed as expected. He is therefore pleased that OP will be included as a subsidiary and that QR and ST will only be included as investments in the group financial statements. In accordance with the ethical principle of professional competence and due care how should the investments in OP, QR and ST be treated in the group financial statements?

A. OP and QR should be consolidated and ST should be equity accounted.

B. OP should be consolidated and QR and ST should be equity accounted.

C. OP should be consolidated, QR should be equity accounted and ST should be valued at cost.

D. OP and QR should be equity accounted and ST should be valued at cost.

Answer(s): A

---

18. LM are just about to pay a dividend of 20 cents a share. Historically, dividends have grown at a rate of 5% each year.
The current share price is $3.05.
The cost of equity using the dividend valuation model is:

A. 12.4%

B. 11.9%

C. 7.4%

D. 6.9%

Answer(s): A

---

19. 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

Answer(s): A

---

20. JK is seeking to raise new finance through a rights issue of equity shares.
Which THREE of the following statements are correct?

- [ ] A. The administration costs associated with a rights issue are higher than those for an initial public offering.
- [ ] B. Shareholders must pay the full market price for shares offered in a rights issue.
- [ ] C. An alternative name for a rights issue is a scrip issue of shares.

- [ ] D. A rights issue will dilute an existing shareholder's control of the entity if they do not take up their rights.
- [ ] E. Entities have the opportunity to underwrite a rights issue.
- [ ] F. Shareholders' entitlement to rights may be sold on their behalf.

Answer(s): D E F
