DUMPSQUEEN

Advanced Financial Reporting

Cima F2

Version Demo

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QUESTION NO: 1

GG's gearing is currently 50% compared to the industry average of 40% (both measured as debt/equity). GG's debt is all in the form of a single bank loan that is repayable in five years' time. The directors of GG are seeking to raise finance for a new project and they are considering an additional bank loan from the same bank.

Which of the following would prevent the bank from lending the finance for the project in the form of a new bank loan?

A. A covenant on the existing bank loan that restricts the level of dividend that can be paid.

B. A projected decrease in interest cover that would breach a covenant on the existing loan.

C. The revaluation of GG's property that shows an increase in its value since the existing bank loan was taken out.

D. A projected lack of profits to be able to claim tax relief on the additional interest arising from the new loan.

ANSWER: B

QUESTION NO: 2

As at 31 October 20X7 TU's financial statements show the entity having profit after tax of $600,000 and 900,000 $1 ordinary shares in issue. There have been no issues of shares during the year. At 31 October 20X7 TU have 300,000 share options in issue, which allow the holders to purchase ordinary shares at $2 a share in 3 years' time. The average price of the ordinary shares throughout the year was $5 a share.

What is the diluted earnings per share for the year ended 31 October 20X7?

A. 66.7 cents

B. 58.8 cents

C. 50.0 cents

D. 55.6 cents

ANSWER: D

QUESTION NO: 3

Which TWO of the following are true for an entity raising equity finance using a rights issue rather than a placing of equity shares to new investors?

A. The administration is more complex and therefore likely to be more costly.

B. The shares will sell at a higher price and therefore generate more funds.

C. The voting rights of existing shareholders will be unaffected if the shareholders take up their rights.

D. The cost of underwriting will be lower because the risk of the issue is lower.

E. The issue will widen the base of shareholders if all shareholders take up their rights.

ANSWER: A C

QUESTION NO: 4

When accounting for a finance lease under IAS 17 Leases, which TWO of the following are recognised in the statement of profit or loss?

A. Finance cost element of the lease payments

B. Depreciation of the leased asset

C. Lease payments paid

D. Lease payments payable

E. Capital repayment element of the lease payments

ANSWER: A B

QUESTION NO: 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

ANSWER: A

QUESTION NO: 6

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 acquistion 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.

ANSWER: A

QUESTION NO: 7

EF acquired a copy machine under a three-year operating lease. EF will pay nothing in year one and then will pay $6,000 in years two and three. The estimated economic useful life of the machine is six years.

Which THREE of the following statements are true in respect of how EF will account for its use of the machine and the associated operating lease payments?

A. An asset of $12,000 will be included in EF's property, plant and equipment at the start of the lease.

B. EF will record no expense in year one in respect of the operating lease charges for this machine.

C. EF will record a credit to bank of $6,000 in year two.

D. EF will include an accrual of $4,000 at the end of year one in respect of the lease payments.

E. EF will charge $4,000 to profit or loss in each of the three years in respect of this operating lease.

F. EF will include an accrual of $6,000 at the end of year one in respect of the lease payments.

ANSWER: C D E

QUESTION NO: 8

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: B C F

QUESTION NO: 9 - (DRAG DROP)

On 1 January 20X6 AB, a listed entity, had 10,000,000 $1 ordinary shares in issue. On 1 April 20X6 AB issued 3,000,000 $1 ordinary shares at their full market price. AB's profit was reported as $1,100,000 after charging corporate income tax of $500,000.

Place the correct values for profit and weighted average number of shares in the boxes below that will be used to calculate AB's earnings per share for the year to 31 December 20X6.

Profit available to ordinary	
Weighted average number of shares	

1,100,000	1,600,000	600,000	13,000,000
9,750,000	12,250,000	10,750,000	

ANSWER:

Profit available to ordinary	1,100,000
Weighted average number of shares	12,250,000

1,100,000	1,600,000	600,000	13,000,000
9,750,000	12,250,000	10,750,000	

Explanation:

Profit available to ordinary	1,100,000
Weighted average number of shares	12,250,000

QUESTION NO: 10

Mr D, a CIMA qualified accountant, is working on the preparation of a long term profit forecast required by the local stock market prior to a new share issue of equity shares. At the most recent board meeting the directors requested that the forecast be inflated. In Mr D's view this would grossly overestimate the forecast profit. The board intends to publish the revised inflated forecast.

Which THREE of the following are the ethical options available to Mr D in this situation?

A. Consider resignation of his post as accountant.

B. Adjust the figures in line with the board's request as this is a forecast and not the financial statements.

C. Discuss the situation with his line manager.

D. Consider reporting the situation to the appropriate authorities.

E. Delegate the work to a subordinate.

F. Submit the original forecast without the board's approval.

ANSWER: A C D

QUESTION NO: 11

Entity A entered into a 3 year operating lease on 1 April 20X3. The rentals are £5,000 a year payable in advance with an additional payment of $1,800 payable on 1 April 20X3.

The rental expense to be included in the statement of profit or loss for the year ended 31 December 20X3 will be:

A. $4,200

B. $5,000

C. $6,800

D. $5,600

ANSWER: A

QUESTION NO: 12

MNO is listed on its local stock exchange. It has a high level of gearing compared to the industry average as a result of rapid expansion funded by debt. The directors of MNO would like to reduce the level of gearing by raising equity to fund the next expansion project. The directors are considering whether to use a placing of new shares or a rights issue.

Which of the following statements is true?

A. A rights issue would not need to be underwritten because the risk of the shares not being taken up is small compared to a placing.

B. The administration costs associated with a placing are usually more expensive than a rights issue because less investors are involved.

C. A placing will increase the proportion of the total number of MNO's shares held by large investors.

D. The directors must use a placing before offering the rights issue to existing shareholders.

ANSWER: C

QUESTION NO: 13

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.

ANSWER: A B D E

QUESTION NO: 14

When accounting for a finance lease under IAS 17 Leases, which TWO of the following are recognised in the statement of profit or loss?

A. Finance cost element of the lease payments

B. Depreciation of the leased asset

C. Lease payments paid

D. Lease payments payable

E. Capital repayment element of the lease payments

ANSWER: A B

QUESTION NO: 15

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

ANSWER: A