CIMAPRA19-F02-1 Q&As

F2 - Advanced Financial Reporting

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QUESTION 1

CORRECT TEXT

AB acquired an investment in a debt instrument on 1 January 20X5 at its nominal value of $25,000, which it intends to hold until maturity. The instrument carried a fixed coupon interest rate of 5%, payable in arrears. Transactions costs of

$5,000 were paid in respect of this investment. The effective interest rate applicable to this instrument was estimated at 9%.

Calculate the value of this investment that AB will include in its statement of financial position at 31 December 20X5.

Give your answer to the nearest whole number.

$?

A. 31450

Correct Answer: A

QUESTION 2

CORRECT TEXT

LM acquired 15% of the equity share capital of ST on 1 January 20X6 for $18 million. LM acquired a further 50% of the equity share capital of ST for $50 million on 1 January 20X7 when the fair value of ST\\'s net assets was $82 million. The

original 15% investment in ST had a fair value of $20 million at 1 January 20X7. The non controlling interest in ST was measured at its fair value of $30 million at the date control in ST was acquired.

Calculate the goodwill arising on the acquisition of ST that LM included in its consolidated financial statements at 31 December 20X7.

Give your answer to the nearest $ million.

$? million

A. 18, 18000000

Correct Answer: A

QUESTION 3

W and Y are very similar entities with the same level of profit before interest and tax. However, W has gearing of 95% and Y has gearing of 30%.

Which of the following statements is true?

A. Investing in W carries a higher level of risk than investing in Y.

B. A greater proportion of profit will be available out of which to declare a dividend in W.

C. Investors in Y will expect a higher return than investors in W.

D. Y has a greater commitment to meet interest payments than W.

Correct Answer: A

QUESTION 4

Which of the following principles are the basic principles followed by the consolidated income statement?

Select ALL that apply.

A. Include all of the parent\\'s income and expenses plus all of the subsidiaries\\' income and expenses

B. Ignore investment income from subsidiary to parent (e.g. dividend payments or loan interest)

C. After profit for the period, show the profit split between amounts attributable to the parent\\'s shareholders and other shareholders

D. Include all of the parent\\'s income and expenses minus all of the subsidiaries\\' income and expenses

E. Include investment income from subsidiary to parent (e.g. dividend payments or loan interest)

Correct Answer: ABC

QUESTION 5

GH is seeking to finance a substantial new project that is guaranteed to enhance the profitability of the entity. Its key determinants in deciding upon the best source of finance are to balance the following requirements:

1) to minimise the costs of issue of the finance;

2) to avoid the need to find cash to repay the source of finance;

3) to ensure that the long-term gearing level does not increase.

Which of the following financing options best meets these requirements?

A. Convertible loan stocks

B. Initial public offering of ordinary shares

C. Redeemable preference shares

D. A term loan

Correct Answer: A

QUESTION 6

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.

Correct Answer: AC

QUESTION 7

On 30 November 20X9 OPQ acquires a financial asset that is classified as Available for Sale. Which of the following describes the value of the financial asset on the date of acquisition?

A. Fair value excluding transaction costs.

B. Fair value including transaction costs.

C. Present value including transaction costs.

D. Present value excluding transaction costs.

Correct Answer: B

QUESTION 8

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

Correct Answer: A

QUESTION 9

What is meant by the term "a placing of ordinary shares"?

A. Selling new ordinary shares to a financial institution on a pre-arranged basis.

B. Selling new ordinary shares directly to the public.

C. Selling existing ordinary shares to new investors through a stock exchange.

D. Selling new ordinary shares to existing shareholders.

Correct Answer: A

QUESTION 10

DRAG DROP

AAA is the only director of entity CD. AAA is also a director of entity GH. CD owns 30% of the equity of MN and 60% of the equity of OP.

Identify which of the following are related parties of CD by placing the appropriate response against one.

Select and Place:

Related party	Not a related party

Major customer of CD	
Director AAA	
Entity GH	
Entity MN	
Entity OP	

Correct Answer:

Related party	Not a related party

Major customer of CD	Related party
Director AAA	Not a related party
Entity GH	Related party
Entity MN	Not a related party
Entity OP	Not a related party

QUESTION 11

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 12

Which of the following examples of contracts will use cost of sales as the balancing figure when calculating profit or loss?

Select ALL that apply.

A. Contract A has a total value of£50m, costs to date of£42m and expected costs to completion of£15m. The project\\'s % stage of completion is 74% using the cost method.

B. Contract A has a total value of£55m, costs to date of£33m and expected costs to completion of£18m.

C. Contract A has a total value of£75m, costs to date of£61m and expected costs to completion of£20m. The contracts % stage of completion was calculated by dividing its value to date of£45m by£75m.

D. Contract A has a total value of£60m, costs to date of£42m and expected costs to completion of£15m. The project\\'s % stage of completion is 80% using the value method.

E. Contract A has a total value of£85m, costs to date of£69m and expected costs to completion of£22m. The contracts % stage of completion was calculated by dividing its costs incurred to date of£69m by £75m.

Correct Answer: CD

QUESTION 13

RS has issued an instrument with a nominal value of $1 million, at a discount of 2.5%, and a coupon rate of 6%. The terms of the issue are that the instrument must either be redeemed at par, at the option of the holder, in three years\\' time, or alternatively converted into equity shares in RS.

The characteristics of this instrument taken as a whole indicates that it would be classified as which of the following?

A. Compound instrument

B. Debt instrument

C. Equity instrument

D. Discounted instrument

Correct Answer: A

QUESTION 14

CORRECT TEXT

CD acquired 100% of the equity share capital of FG for cash consideration of Kr1,200,000 on 1 January 20X7.

Retained earnings of FG at the date of acquisition was Kr800,000. CD operates from Country A and its functional and presentation currency is $. FG is located and trades throughout Country B and its functional currency is the Krona (Kr).

CD has no other subsidiaries. Goodwill had not suffered any impairment to date.

Summarised data from the statements of financial position for both entities at 31 December 20X7 is presented below:

Calculate the exchange difference arising on the retranslation of goodwill on the acquisition in the consolidated statement of financial position of CD at 31 December 20X7.

Give your answer to the nearest $000.

A. 14, 14000, 13636, 13637

Correct Answer: A

QUESTION 15

XYZ had 600,000 ordinary shares in issue on 1 July 20X4. On 1 January 20X5, the entity made a 1 for 2 bonus issue. The profit attributable to ordinary shareholders for the year ended 30 June 20X5 was $2,925,000. What is the basic earnings per share for the year ended 30 June 20X5?

A. $3.25

B. $4.88

C. $1.63

D. $3.90

Correct Answer: A