

# DUMPS ARENA

## F2 - Advanced Financial Reporting

Cima F2

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**QUESTION NO: 1**

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: 2**

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.

**ANSWER: B C****QUESTION NO: 3**

Which of the following would cause a deferred tax balance to be included in the statement of financial position for an entity?

- A. Expenses in the statement of profit or loss which are not allowable for tax creating a permanent difference.
- B. The acquisition of land for which there is no tax depreciation.

- C. The acquisition of plant and equipment a year ago where the tax depreciation rate is different to the accounting depreciation rate.
- D. Impairment of goodwill that arose on the acquisition of a subsidiary entity.

**ANSWER: C**

#### **QUESTION NO: 4**

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: B D F**

#### **QUESTION NO: 5**

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: B C E**

**QUESTION NO: 6**

What figure will be presented in GHI's consolidated statement of changes in equity for the year ended 31 December 20X4, in respect of dividends paid to non-controlling interest?

- A. \$25,000
- B. \$125,000
- C. \$100,000
- D. \$0

**ANSWER: A****QUESTION NO: 7**

Which THREE of the following actions should improve the cash position of an entity?

- A. Substituting a bonus issue for the final dividend.
- B. Selling non current assets and leasing them back under operating leases.
- C. Implementing an efficient inventory ordering system.
- D. Revaluing all non-current assets.
- E. Revising the depreciation policy of non-current assets.
- F. Offering extended credit terms to existing customers.

**ANSWER: A B C****QUESTION NO: 8**

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.

**ANSWER: B**

**QUESTION NO: 9**

LM granted 100 share options to each of its 400 employees on 1 January 20X7. The options will only vest if employees remain with LM for 3 years from the grant date. The fair value of each share option was \$5 on 1 January 20X7.

20 employees left in the year to 31 December 20X7 and at that date it was estimated that a further 35 would leave over the following two years.

Which of the following journal entries did LM process to account for the share options in the year to 31 December 20X7, in accordance with IFRS2 Share-based Payments?

- A. Dr Profit or loss \$57,500 ; Cr Other reserves within equity \$57,500
- B. Dr Profit or loss \$57,500 ; Cr Liabilities \$57,500
- C. Dr Profit or loss \$172,500 ; Cr Other reserves within equity \$172,500
- D. Dr Profit or loss \$172,500 ; Cr Liabilities \$172,500

**ANSWER: A****QUESTION NO: 10**

Which THREE of the following statements are true in relation to financial assets designated as fair value through profit or loss under IAS 39 Financial Instruments: Recognition and Measurement?

- A. Shares in another entity held for short term trading purposes fall within this category.
- B. Transaction costs in relation to these assets are expensed to profit or loss on acquisition.
- C. Transaction costs in relation to these assets are added to the initial cost of the asset on acquisition.
- D. The gain or loss on the subsequent measurement of these assets is recorded within other comprehensive income.
- E. The gain or loss on the subsequent measurement of these assets is recorded within profit for the year.
- F. Once the asset has been subsequently measured to fair value an impairment review is undertaken.

**ANSWER: A B E****QUESTION NO: 11**

AB sold the majority of its operating equipment to LM for cash on 30 December 20X9 and then immediately leased it back under an operating lease.

AB used the cash proceeds from the sale to reduce its long term borrowings significantly. No early repayment charge was levied by the lender.

Which of the following statements is true in respect of AB's ratios calculated at 31 December 20X9?

- A. AB's return on capital employed would be lower as a result of this sale being recorded.

- B. AB's current ratio would be lower as a result of this sale being recorded.
- C. AB's non-current asset turnover would be lower as a result of this sale being recorded.
- D. AB's gearing ratio would be lower as a result of this sale being recorded.

**ANSWER: D**

#### **QUESTION NO: 12**

Which THREE of the following statements are true in relation to financial assets designated as fair value through profit or loss under IAS 39 Financial Instruments: Recognition and Measurement?

- A. Shares in another entity held for short term trading purposes fall within this category.
- B. Transaction costs in relation to these assets are expensed to profit or loss on acquisition.
- C. Transaction costs in relation to these assets are added to the initial cost of the asset on acquisition.
- D. The gain or loss on the subsequent measurement of these assets is recorded within other comprehensive income.
- E. The gain or loss on the subsequent measurement of these assets is recorded within profit for the year.
- F. Once the asset has been subsequently measured to fair value an impairment review is undertaken.

**ANSWER: A B E**

#### **QUESTION NO: 13**

GH is a listed entity which holds equity shares in one subsidiary and one associate.

Information extracted from the most recent financial statements is as follows:

What is the interest cover for the year?

- A. 9.6 times
- B. 10.7 times
- C. 11.7 times
- D. 8.5 times

**ANSWER: A**

#### **QUESTION NO: 14**

LM acquired 80% of the equity shares of ST when ST's retained earnings were \$50 million. The fair value of the net assets of ST included a contingent liability with a fair value of \$100 million at the date of acquisition and a fair value of \$40 million at 31 December 20X6. No other fair value adjustments were required at the date of acquisition.

LM and ST had retained earnings of \$200 million and \$80 million respectively at 31 December 20X6.

The consolidated retained earnings of LM at 31 December 20X6 were:

- A. \$164 million
- B. \$176 million
- C. \$272 million
- D. \$284 million

**ANSWER: C**

**QUESTION NO: 15 - (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				
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	

**Explanation:**

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