CIMAPRA19-F02-1 Q&As

F2 - Advanced Financial Reporting

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QUESTION 1

CORRECT TEXT

EF has redeemable 10% bonds which are currently trading at $94.00 for each $100 of nominal value. The bonds can be redeemed at par in five years\\' time. The corporate income tax rate is 22%.

The present value of the cash flows associated with $100 nominal value of these bonds at a discount rate of 7% is $9.28.

Calculate the post tax cost of debt.

Give your answer as a percentage to one decimal place.

%

A. 9.4, 9.3, 9.39, 9.40

Correct Answer: A

QUESTION 2

CORRECT TEXT

The capital structure of ST is summarised in the table below:

What is the weighted average cost of capital of ST?

Give your answer as a percentage to one decimal place.

? %

A. 12.7, 12.67, 12.6

Correct Answer: A

QUESTION 3

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

Correct Answer: AB

QUESTION 4

A local council is one year into a two year project to renovate local parks. The project is on track to be completed within the set time-scale, however it has proved more costly than initially expected.

The project is on track to be completed within its two year period. Contracts for the labour and materials needed to renovate the parks were agreed at the start of the project and no changes have arisen. Despite the fact that the council has

yet to fully settle these contracts, costs are set to be as budgeted.

Why would this example not be recognised as a provision?

A. Neither the timing nor the amount of the provision is uncertain.

B. The settlement of the contract is unlikely to result in an outflow from the council.

C. The council doesn\\'t have a present obligation from the project.

D. The council has no potential future obligations arising from the project.

Correct Answer: A

QUESTION 5

XY has a weighted average cost of capital (WACC) of 10% based on its gearing level (measured as debt/debt+equity) of 40%. It is considering a signficant new project.

In which of the following situations would it be appropriate to appraise this project using XY\\'s existing WACC of 10%?

A. The project is in a different industry to XY\\'s current operations and funded entirely by equity.

B. The project is an extension of XY\\'s current operations and is funded 40% by debt and 60% by equity.

C. The project is an extension of XY\\'s current operations and is funded by equal amounts of debt and equity.

D. The project is in a different industry to XY\\'s current operations and is funded by equal amounts of debt and equity.

Correct Answer: B