



CIMAPRA19-F02-1^{Q&As}

F2 - Advanced Financial Reporting

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QUESTION 1

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.

Correct Answer: B

QUESTION 2

HJ is currently in dispute with an employee, who is claiming \$400,000 in a legal case against them.

HJ's legal advisors have stated that it is probable that they will lose the case and will have to pay the amount claimed.

Also, HJ are claiming \$250,000 from a supplier of defective goods and the legal advisors have stated that it is probable that HJ will be successful in this claim.

What is the correct accounting treatment for these two items in HJ's financial statements?

- A. Provide for the \$400,000 potential outflow and disclose the \$250,000 potential inflow.
- B. Provide for the \$400,000 potential outflow and recognise the \$250,000 potential inflow.
- C. Disclose the \$400,000 potential outflow and disclose the \$250,000 potential inflow.
- D. Disclose the \$400,000 potential outflow and recognise the \$250,000 potential inflow.

Correct Answer: A

QUESTION 3

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

Correct Answer: D

QUESTION 4

GH issued a 6% debenture for \$1,000,000 on 1 January 20X4. A broker fee of \$50,000 was payable in respect of this issue. The effective interest rate associated with this debt instrument is 7.2%.

The carrying value of the debenture at 31 December 20X4 is:

- A. \$958,400
- B. \$1,065,600
- C. \$1,012,000
- D. \$961,400

Correct Answer: A

QUESTION 5

JJ's current share price is \$1.80, with a dividend of \$0.20 a share just about to be paid.

Dividends have increased at an average annual growth rate of 4.5% and this is expected to continue into the future.

What is JJ's cost of equity?

- A. 17.6%
- B. 16.1%
- C. 12.5%
- D. 11.1%

Correct Answer: A

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