CIMAPRA19-F02-1 Q&As

F2 - Advanced Financial Reporting

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QUESTION 1

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 2

CORRECT TEXT

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.

$? 000

A. 14, 14000, 13636, 13637

Correct Answer: A

QUESTION 3

RST sells computer equipment and prepares its financial statements to 31 December.

On 30 September 20X5 RST sold computer software along with a two year maintenance package to a customer. The customer is given the right to return the goods within six months and claim a full refund if they are not satisfied with the

computer software. The risk of return is considered to be insignificant for RST.

How should the revenue from this transaction and the right of return be recognised in the financial statements for the year ended 31 December 20X5?

A. Recognise 100% of the revenue from both the sale of goods and the maintenance contract and create a provision for the anticipated level of returns.

B. Do not recognise any revenue from the sale of goods or the maintenance contract and do not create a provision for the anticipated level of returns.

C. Recognise 12.5% of the revenue from both the sale of goods and the maintenance contract and do not create a provision for the anticipated level of returns.

D. Recognise 100% of the revenue from the sale of goods,12.5% of the revenue from the maintenance contract and create a provision for the anticipated level of returns.

Correct Answer: D

QUESTION 4

On 1 January 20X4 EF grants each of its 125 employees 500 share options on the condition that they remain in employment for 3 years. During the year to 31 December 20X4 10 employees left and It is expected that a further 25 will leave before the end of the vesting period.

The fair value of each share option is $30 on 1 January 20X4 and $45 on 31 December 20X4.

What is the journal entry in respect of these share options in EF\\'s financial statements for the year ended 31 December 20X4?

Debit	Profit or loss	$675,00
Credit	Liability	$675,00

Debit	Profit or loss	$450,00
Credit	Equity	$450,00

Debit	Profit or loss	$450,00
Credit	Liability	$450,00

Debit	Profit or loss	$675,00
Credit	Equity	$675,00

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

QUESTION 5

DRAG DROP

On 1 January 20X8 XY, a listed entity, had 10,000,000 ordinary shares in issue each with a par value of 50 cents. On 1 July 20X8 XY raised $6,000,000 by issuing ordinary shares at a price of ?.50 each which was the full market price.

Place the correct figure into the box below to show the number that XY will use as its weighted average number of ordinary shares in the calculation of earnings per share for the year to 31 December 20X8.

Select and Place:

	Number
Weighted average number of	

10,000,000	12,000,000	11,000,000	14,000,000
16,000,000	13,000,000		

Correct Answer:

	Number
Weighted average number of	12,000,000

10,000,000		11,000,000	14,000,000
16,000,000	13,000,000		

QUESTION 6

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 7

Information from the financial statements of RST for the year ended 30 April 20X9 is as follows:

At 30 April 20X9 the ordinary shares are trading at $4.75.

What is the price earnings (P/E) ratio for RST at 30 April 20X9?

A. 15.83

B. 7.92

C. 10.56

D. 9.31

Correct Answer: A

QUESTION 8

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 9

Which of the following would limit the effectiveness of analysis performed on the operating profit margins of two separate entities with the same total revenue over a12 month period?

A. Different accounting estimates in respect of depreciation of property, plant and equipment.

B. Different approaches to allocating expenses to cost of sales, administration expenses and distribution costs.

C. Different interest rates on loan finance available to the entities.

D. Different pattern of monthly revenues caused by seasonality.

Correct Answer: A

QUESTION 10

Following the impairment review of the investment in BC, what would be the carrying value of this associate in KL\\'s consolidated statement of financial position at 31 December 20X9?

A. $1,050,000

B. $1,240,000

C. $1,800,000

D. $1,960,000

Correct Answer: A

QUESTION 11

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:

1.

Legal title of the cars remains with SQ until they are sold by LM to a third party.

2.

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.

3.

LM has the right to return any car at any time without incurring a penalty.

4.

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.

Correct Answer: BCF

QUESTION 12

FG acquired 75% of the equity share capital of HI on 1 September 20X3.

On the date of acquisition, the fair value of the net assets was the same as the carrying amount, with the exception of a contingent liability disclosed by HI and relating to a pending legal case. At 1 September 20X3, the contingent liability was

independently valued at $1.2 million.

At the current year end, 31 March 20X5, the legal case is still outstanding. The fair value of the liability has now been estimated at $1.4 million, and the case is expected to be resolved in the forthcoming financial year.

How should this contingent liability be recorded in the consolidated financial statements for the year ended 31 March 20X5?

A. A current liability of $1.4 million.

B. A non-current liability of $1.4 million.

C. A current liability of $1.2 million.

D. A non-current liability $1.2 million.

Correct Answer: A

QUESTION 13

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.

Correct Answer: ABE

QUESTION 14

The tax benefit on a company\\'s asset is £80,000 and the useful life on that asset is five years. The company creates a deferred tax provision to spread this benefit over the asset\\'s useful life.

What entry is needed to reduce this deferred tax provision in the company\\'s year two accounts?

A. DR Deferred tax liability (SOFP) £6,000

B. CR Deferred tax liability (SOFP) £6,000

C. DR Corporation tax (income statement) £6,000

D. CR Corporation tax (income statement) £6,00

E. DR Deferred tax liability (SOFP) £44,000

F. CR Deferred tax liability (SOFP) £44,000

G. DR Corporation tax (income statement) £44,000

H. CR Corporation tax (income statement) £44,000

Correct Answer: A

QUESTION 15

The dividend yield of ST has fallen in the year to 31 May 20X5, compared to the previous year.

The share price on 31 May 20X4 was $4.50 and on 31 May 20X5 was $4.00. There were no issues of share capital during the year.

Which of the following should explain the reduction in the dividend yield for the year to 31 May 20X5 compared to the previous year?

A. The dividend paid in the year was reduced in order to pay for new assets.

B. Surplus cash was used to pay a special dividend in addition to the normal dividend in the year.

C. The profit for the year fell significantly and the dividend per share stayed the same.

D. To compensate investors for the reduction in share price a higher dividend per share was paid.

Correct Answer: A