

CIMA 2019 Professional Examinations

Management Level

Subject F2

Advanced Financial Reporting

EXAM PRACTICE KIT



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This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2016 IFRS Standards Red Book.

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EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

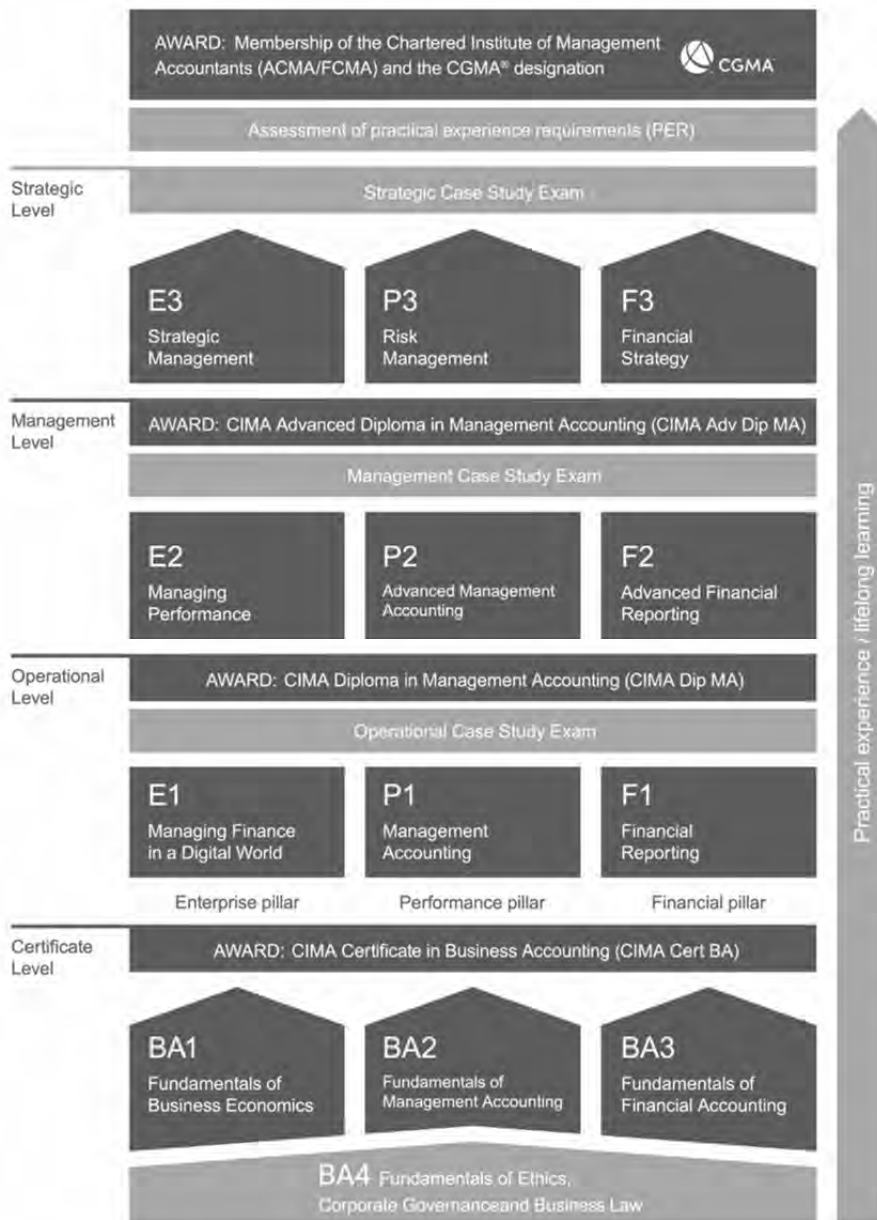
- 1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.
- 2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.
- 3 Attempt all questions, there is no negative marking.
- 4 Double check your answer before you put in the final answer although you can change your response as many times as you like.
- 5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.
- 6 Identify the easy questions first and get some points on the board to build up your confidence.
- 7 Attempt 'wordy' questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.
- 8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.
- 9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen 'scratch pad' on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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B STUDY WEIGHTINGS

A percentage weighting is shown against each exam content area in the exam blueprint. This is intended as a guide to the proportion of study time each topic requires.

All component learning outcomes will be tested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

C LEARNING OUTCOMES

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

- 1 to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination
- 2 to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

The examination blueprints and representative task statements

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here www.cimaglobal.com/examblueprints

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

CIMA verb hierarchy

Skill level	Verbs used	Definition
Level 5 Evaluation How you are expected to use your learning to evaluate, make decisions or recommendations	Advise Assess Evaluate Recommend Review	Counsel, inform or notify Evaluate or estimate the nature, ability or quality of Appraise or assess the value of Propose a course of action Assess and evaluate in order, to change if necessary
Level 4 Analysis How you are expected to analyse the detail of what you have learned	Align Analyse Communicate Compare and contrast Develop Discuss Examine Interpret Monitor Prioritise Produce	Arrange in an orderly way Examine in detail the structure of Share or exchange information Show the similarities and/or differences between Grow and expand a concept Examine in detail by argument Inspect thoroughly Translate into intelligible or familiar terms Observe and check the progress of Place in order of priority or sequence for action Create or bring into existence
Level 3 Application How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
Level 2 Comprehension What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
Level 1 Knowledge What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

D OBJECTIVE TEST

Objective test

Objective test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: <https://www.cimaglobal.com/Studying/study-and-resources/>.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

SYLLABUS GRIDS

F2: Advanced Financial Reporting

Analysing and communicating insights about the performance of the organisation

Content weighting

Content area		Weighting
A	Financing capital projects	15%
B	Financial reporting standards	25%
C	Group accounts	25%
D	Integrated reporting	10%
E	Analysing financial statements	25%
		100%

F2A: Financing capital projects

For selected strategic (capital investment) projects to be implemented, funds must be sourced at the right cost and at the right time. This is a key role of the finance function and shows how it enables the organisation to create value. This section looks at the sources and types of funds and how much they cost.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Compare and contrast types and sources of long-term funds.	Compare and contrast: a. Long-term debt b. Equity finance c. Markets for long-term funds	<ul style="list-style-type: none"> • Characteristics of different types of shares and long-term debts • Ordinary and preference shares • Bonds and other types of long-term debt • Operations of stock and bond markets • Issuance of shares and bonds • Role of advisors 	<p>What are the types of funds that can be used to finance medium to long-term projects? What are their unique and shared profiles and under what conditions are they suitable for organisations seeking long-term funds? What is the impact of these funds on the risk profile of organisations? Where can these funds be sourced? What are the criteria that organisations must fulfil to access funds from these sources?</p>
2. Calculate cost of long-term funds.	Calculate: a. Cost of equity b. Cost of debt c. Weighted average cost of capital	<ul style="list-style-type: none"> • Cost of equity using dividend valuation model (with or without growth in dividends) • Post-tax cost of bank borrowing • Yield to maturity of bonds and post-tax cost of bonds • Post-tax costs of convertible bonds up to and including conversion 	<p>What is the cost of each type of funds? What is the cost of the total funds used by the organisation to fund its projects? How can the organisation minimise the cost of funds whilst ensuring the availability of adequate funds at the right time and at the same time maintaining an appropriate risk profile?</p>

F2B: Financial reporting standards

The finance function is responsible for narrating how organisations create and preserve value. Different types of narratives are used for different audiences. Financial reporting is used for external stakeholders. This section examines the building blocks for constructing the narratives in the financial statements. It covers the key financial reporting standards on which the financial statements will be based.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Explain relevant financial reporting standards for revenue, leases, financial instruments, intangible assets and provisions.	Explain the financial reporting standards for: <ol style="list-style-type: none"> Revenue Leases Provisions Financial instruments Intangible assets Income taxes Effect of changes in foreign currency rates 	<ul style="list-style-type: none"> IFRS 15 – Revenue from Contracts with Customers IFRS 16 – Leases IAS 37 – Provisions, Contingent Liabilities and Contingent Assets IFRS 9 – Financial Instruments IAS 32 – Financial Instruments: Presentation IAS 38 – Intangible Assets IAS 12 – Income Taxes IAS 21 – Effect of Changes in on Foreign Exchange Rates 	How should important elements of the financial statement be treated in the books? What principles should underpin these? How do financial reporting standards help to ensure this? Using financial reporting standards terminology this part will be looking at issues in recognition and measurement. The most important issues will be considered here.
2. Explain relevant financial reporting standards for group accounts.	a. Explain the financial reporting standards for the key areas of group accounts	<ul style="list-style-type: none"> IAS 1 – Presentation of Financial Statements IAS 27 – Separate Financial Statements IAS 28 – Investment in Associates and Joint Ventures IFRS 3 – Business Combinations IFRS 5 – Non-current Assets Held for Sale or Discontinued Operations IFRS 10 – Consolidated Financial Statements IFRS 11 – Joint Arrangements 	What are the key principles that should govern the preparation of group accounts? How are they reflected in financial reporting standards? The approach should focus on the aspects of group accounts that are essential for discussions with the rest of the business. Therefore, the emphasis should be on awareness creation and basic understanding of the technical elements.

F2C: Group accounts

Organisations sometimes acquire or merge with other organisations to improve their strategic performance, position and prospects. The performance and position of combined operations are reported through group accounts. This section covers the application of the relevant financial reporting standards to prepare group accounts. The topics covered are those that are essential to conducting conversations with different parts of the business about the performance of the group and its component parts.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Prepare group accounts based on IFRS.	Prepare the following based on financial reporting standards: a. Consolidated statement of financial position b. Consolidated statement of comprehensive income c. Consolidated statement of changes in equity d. Consolidated statement of cash flows	<ul style="list-style-type: none"> • IAS 1 – Presentation of Financial Statements • IAS 27 – Separate Financial Statements • IAS 28 – Investment in Associates and Joint Ventures • IFRS 3 – Business Combinations • IFRS 5 – Non-current Assets Held for Sale or Discontinued Operations • IFRS 10 – Consolidated Financial Statements • IFRS 11 – Joint Arrangements 	This is about the preparation of basic group accounts applying the financial reporting standards learned in the previous section. Basic understanding of the technical issues is required. Thus, it should cover the rules of consolidation, goodwill, foreign subsidiaries, minority interests and associated companies. These should be placed in the context of the organisation's strategy as executed through mergers and acquisitions and the setting up of subsidiaries. In addition, it can be linked to the performance management of responsibility centres.
2. Discuss additional disclosure issues related to the group accounts.	Discuss disclosure requirements related to: a. Transaction between related parties b. Earnings per share	<ul style="list-style-type: none"> • IAS 24 – Related Party Disclosures • IAS 33 – Earnings Per Share 	What other issues should be disclosed outside the financial statements? Why? Again, the focus is on building awareness and basic understanding of the technical issues in order to equip finance professionals to conduct meaningful discussions with the rest of the organisation about the performance, position and potential of the organisation.

F2D: Integrated reporting

In a multi-stakeholder world, there has been a call for broader forms of reporting to cover wider audiences and issues of concern to them. The International Integrated Reporting Framework developed by the International Integrated Reporting Council (IIRC) is one of the most influential frameworks that seeks to fulfil this role. This section introduces candidates to the Framework and its components.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Discuss the International <IR> Framework activities.	a. Describe the role of the International Integrated Reporting Council. b. Explain integrated thinking. c. Discuss the International <IR> Framework.	<ul style="list-style-type: none"> Context of integrated reporting International Integrated Reporting Council Integrated thinking International <IR> Framework Benefits and limitations of the Framework 	This section looks at the International <IR> Framework as a means of addressing the need for wider forms of reporting in a multi-stakeholder world. It introduces the role of the IIRC and uses the concept of integrated thinking as the foundational concept of the International <IR> Framework. It also discusses the Framework, its benefits and limitations.
2. Explain the Six Capitals of Integrated Reporting.	Explain the measurement and disclosure issues of: <ol style="list-style-type: none"> Financial capital Manufactured capital Intellectual capital Human capital Social and relationship capital Natural capital 	<ul style="list-style-type: none"> Definition of the six capitals Measurement and disclosure issues relating to the six capitals 	The six capitals are a key part of the International <IR> Framework. This section defines the six capitals and explains the measurement and disclosure issues relating to them.

F2E: Analysing financial statements

The analyses of financial statements enable organisations to explain their performance and to compare their performance and prospects over time and against others. It can show how vulnerable they and their business models are to disruption. This section shows how these analyses are conducted and their limitations.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse financial statements of organisations.	Analyse financial statements to provide insight on: a. Performance b. Position c. Adaptability d. Prospects	<ul style="list-style-type: none"> Ratio analysis Interpretation of ratios Reporting of ratios along the dimensions of the Gartner Data Analytics maturity model – descriptive, diagnostic, predictive and prescriptive Link to organisation's business model 	The financial statements narrate how organisations create and preserve value using financial numbers. Analyses of financial statements allows finance professionals to go beyond the numbers and put the narrative into everyday business language to facilitate discussions and collaboration with the rest of the organisation. The analysis could be based on the Gartner Data Analytics model which presents information as descriptive, diagnostic, predictive and prescriptive. Thus, it will cover hindsight, insight and foresight into the organisation's performance, position, resilience (or adaptability) and prospects. The analyses can be linked to the organisation's business model.
2. Recommend actions based on insights from the interpretation of financial statements.	a. Recommend actions	<ul style="list-style-type: none"> Linkages between different areas of performance Predictive and prescriptive ratios Impact of recommendations on wider organisational ecosystem 	Draw logical conclusions from the analysis. The focus is mainly predictive and prescriptive areas of data analytics. The recommendations should also be organisation wide and must encompass the ecosystem. A link with the business model framework in E2 is essential.
3. Discuss the limitations of the tools used for interpreting financial statements.	Discuss: a. Data limitations b. Limitations of ratio analysis	<ul style="list-style-type: none"> Quality and type of data used Comparability – both in segment and internationally 	What are the limitations of the data and techniques used in the analyses of financial statements? How do they affect the recommendations? How could they be overcome?

Section 1

OBJECTIVE TEST QUESTIONS

FINANCING CAPITAL PROJECTS

LONG TERM FINANCE

1 Which TWO of the following statements are true?

- A Entities must be listed on a recognised stock exchange in order to be able to raise finance from the capital markets
- B Only equity shares can be traded in the capital markets
- C Bond holders are lenders of debt finance regardless of being traded on the capital markets
- D If an entity is not listed on a stock market it cannot issue new shares
- E The primary function of a stock market is to enable investors to buy and sell investments

2 Complete the sentences below by placing one of the following options in each of the spaces.

general assets	preferable
a specific asset	less preferable

A floating charge is when debt is secured against _____ of the entity and this type of charge is considered _____ from the lenders point of view to a fixed charge.

3 Which one of the following statements is true in respect of raising equity finance?

- A A rights issue is cheaper than a public share issue
- B If an entity raises equity finance by way of a rights issue this would result in a flotation
- C A rights issue will result in a dilution to existing shareholders' percentage ownership in the entity
- D A rights issue is when equity shares are available to be purchased by institutional investors only

- 4** DF has raised finance via a rights issue of 1 for 5 at \$2.25 per share. The shares were quoted at \$2.75 prior to the rights issue.

The theoretical ex rights price is:

- A \$2.33
- B \$2.50
- C \$2.65
- D \$2.67

- 5** Complete the sentences below by placing one of the following options in each of the spaces.

cum rights	ex rights
------------	-----------

When a rights issue is announced, the existing shares will be traded _____ up to the date of the issue. After the issue takes place, the shares will then be traded _____.

- 6** Which one of the following statements is NOT a characteristic of cumulative preference shares?

- A Preference dividends must be paid before ordinary dividends can be paid
- B The entity cannot claim tax relief on preference dividends paid
- C If a dividend is not paid, it must be paid in a future period together with the normal dividend for that year
- D The directors can choose whether to pay the preference dividend or whether to delay it until a future period

- 7** Which TWO of the following statements are NOT characteristics of ordinary shares?

- A Dividends are paid at the discretion of the directors
- B Dividends are treated as a distribution of earnings and are paid out of post-tax profits
- C On the winding up of the entity, the shareholders will receive a payout before other types of shareholder
- D The dividend payment will be a fixed proportion of the nominal value of the shares
- E The shareholders have voting rights

- 8** ZX has made a rights issue of 1 for 3 at \$6.75 per share. The shares were quoted at \$7.50 prior to the rights issue.

Calculate the theoretical ex rights price. State your answer in \$ to two decimal places.