

CIMA 2019 Professional Examinations

Operational Level

Subject F1

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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OBJECTIVE TEST QUESTIONS

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EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

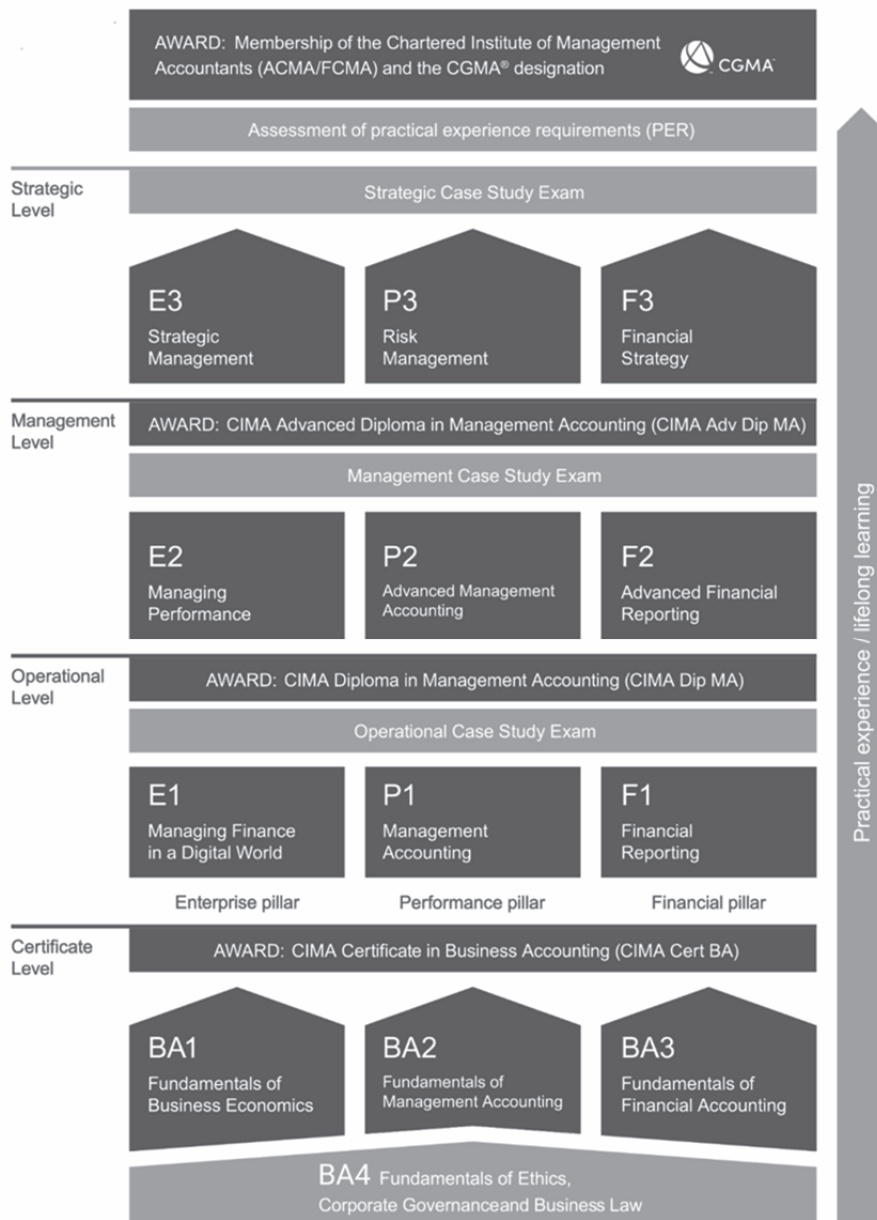
- 1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.
- 2 These exam practice kits give you plenty of exam 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

F1: Financial Reporting

What the finance function does and its implications

Content weighting

Content area		Weighting
A	Regulatory environment of financial reporting	10%
B	Financial statements	45%
C	Principles of taxation	20%
D	Managing cash and working capital	25%
		100%

F1A: Regulatory environment of financial reporting

The preparation of financial statements is regulated by laws, standards, generally accepted accounting principles and by codes. The regulations ensure that financial statements of different entities are comparable and that they present a reasonably accurate picture of the performance, position and prospects of the organisation to their users. This section covers who the regulators are, what they do and why and how the regulations are applied. The objective is to provide candidates with a strong foundation for preparing and interpreting financial statements.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1 Identify regulators and describe their role.	a. Identify the major regulators. b. Describe what they do. c. Explain why they regulate financial reporting.	<ul style="list-style-type: none"> • National regulators • IFRS foundation • IASB • International Organisation for Securities Commissions (IOSCO) • Standard setting process • Differences between rules-based and principles-based regulations • Others such as International Integrated Reporting Council (IIRC) 	Who are the regulators who determine how financial statements are prepared? What do they do? What value do they contribute to the production of financial statements? Coverage will include national and international regulators, stock exchange regulators and various accounting and financial reporting standards boards and major influential bodies like the IIRC.
2. Apply corporate governance principles to financial reporting.	a. Describe the role of the board in corporate governance. b. Apply corporate governance and financial stewardship principles to financial reporting.	<ul style="list-style-type: none"> • Need and scope for corporate governance regulations • Different approaches to corporate governance regulations 	Boards have overall responsibility for ensuring that executives of organisations create value for their stakeholders and safeguard their assets. The role of boards is incorporated in various corporate governance codes. What are the main principles as they apply to financial reporting and the oversight of boards?

F1B: Financial statements

One of the roles of finance is to narrate how organisations create and preserve value. The financial statements are the means by which narration is done to particular audiences. This section enables candidates to prepare basic financial statements using financial reporting standards. It covers the main elements of the financial statements, what they intend to convey, the key financial reporting standards and how they are applied to prepare financial statements.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Identify the main elements of financial statements.	a. Identify the main elements of financial statements contained in the IFRS conceptual framework.	<ul style="list-style-type: none"> • Objectives and overall purpose of financial reporting • Qualitative characteristics of financial information • Reporting entity and its boundaries • Recognition (and derecognition) • Measurement bases • Presentation and disclosure • Concept of capital maintenance 	This sets the main principles that underpin the preparation of financial statements. The focus is on the main principles. No detailed treatments are expected.
2. Explain specific financial reporting standards.	Explain the specific financial reporting standards related to: <ol style="list-style-type: none"> a. Non-current assets b. Leases c. Impairment d. Inventory e. Events after the period 	<ul style="list-style-type: none"> • IAS 16 – Property, Plant & Equipment • IFRS 5 – Non-current Assets Held for Sale or Discontinued Operations • IFRS 16 – Leases • IAS 36 – Impairment of Assets • IAS 2 – Inventories • IAS 10 – Events After the Reporting Period 	Examine the requirements for how major items of the financial statements are to be recognised, measured and disclosed. This covers the main areas and not specialist topics.
3. Apply financial reporting standards to prepare basic financial statements.	Apply financial reporting standards to prepare: <ol style="list-style-type: none"> a. Statement of financial position b. Statement of comprehensive income c. Statement of changes in equity d. Statement of cash flows 	IAS 1 – Presentation of Financial Statements IAS 7 – Statement of Cash Flows	Give hands-on experience of preparing basic financial statements by bringing in all the elements.

F1C: Principles of taxation

One of the implications of value creation is how that value is distributed to different stakeholders. Taxation is part of this distribution. This section helps candidates distinguish between types of taxes and to calculate corporate taxes. In a digital world where revenue is earned through online trading that spans national boundaries, candidates are introduced to the issues relating to taxation across international borders and the ethics of taxation.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Distinguish between different types of taxes.	Distinguish between a. Direct versus indirect b. Corporate versus personal	<ul style="list-style-type: none"> • Features of direct and indirect taxes • Features of corporate and personal taxes 	Gives a broad overview of the different types of taxes, who they affect and why they are used.
2. Calculate tax for corporates.	a. Explain the basis of taxation b. Explain the difference between accounting profit and taxable profit c. Calculate corporate tax	<ul style="list-style-type: none"> • Exempt income • Income taxed under different rules • Allowable expenditure • Capital allowances • Reliefs • Tax on sale of asset 	The focus shifts here to corporate taxation. The main area covered is the difference between accounting profit and profit for taxation purposes. No national law is applied here. The main thing here is coverage and application of principles.
3. Explain some relevant issues that affect taxation.	Explain: a. Taxation across international borders b. Ethics of taxation	<ul style="list-style-type: none"> • Corporate residence • Types of overseas operations (e.g., subsidiary or branch) • Double taxation • Transfer pricing • Tax avoidance • Tax evasion 	Given the increase of cross-border trading and revenue generation in the digital world what are the key issues affecting international taxation? What are the ethical issues that arise in the computation and payment of taxes?

F1D: Managing cash and working capital

Cash is the life blood of any organisation. The ability to provide cash, at the appropriate cost when it is needed is one of the key contributions that finance makes to organisations. It fulfils finance's role of enabling organisations to create and preserve value. This section provides candidates with the tools to ensure that the organisation has enough cash to ensure its continuing operations.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Distinguish between the types and sources of short-term finance.	Distinguish between a. Types of short-term finance b. Financial institutions	<ul style="list-style-type: none"> • Trade payables • Overdrafts • Short-term loans • Debt factoring • Trade terms • Trade partners • Banks 	What are the main types of funds needed for the short term? Where can those funds be accessed? How does one determine which type or source of finance is appropriate?
2. Explain and calculate operating and cash cycles.	Explain and calculate a. Operating cycle b. Cash flow cycle	<ul style="list-style-type: none"> • Inventory days • Trade receivable days • Trade payable days 	The operating and cash cycle is one of the main means of putting together various elements of cash and near-cash items in a coherent manner to explain the cash needs of the organisation. What are these elements? How do they affect the availability and adequacy of cash for short-term operations?
3. Apply different techniques used to manage working capital.	a. Apply policies relating to elements of operating and cash cycle b. Prepare forecasts c. Explain risks relating to working capital	<ul style="list-style-type: none"> • Receivables management • Payables management • Inventory management • Risk of overtrading • Short-term cash flow forecasting • Investing short-term cash 	What are the policies that organisations should put in place to manage working capital? How is the appropriate level determined, forecasted and accessed? What are the risks associated with accessing such funds?

Section 1

OBJECTIVE TEST QUESTIONS

PRINCIPLES OF TAX

- 1 Complete the sentence below by placing one of the following options in the space.

Competent jurisdiction is _____.

the country whose tax laws apply to the entity

the country the income arises in

the country where the parent is incorporated

- 2 Complete the sentence below by placing one of the following options in the space.

A taxable person is _____.

the person or entity who is responsible for completing the tax return

the person or entity who is accountable for the tax payment

the person or entity who has direct contact with the tax authority

- 3 Which TWO of the following are methods used for double tax relief?

A Exemption relief

B Deduction relief

C Tax loss relief

D Withholding relief

E Underlying relief

- 4 Which of the following could be said to be a progressive tax?

A Property sales tax of 1% of the selling price of all properties sold

B Value added tax at a rate of 0%, 10% or 15% depending on the type of goods or services provided

C Corporate wealth tax at 2% of total net assets up to \$10 million then at 0.5% on net assets greater than \$10 million

D Personal income tax of 10% on earnings up to \$10,000, then at 15% from \$10,001 up to \$100,000 and 25% over \$100,000