

# CIMAPRA19-F02-1<sup>Q&As</sup>

F2 - Advanced Financial Reporting

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**QUESTION 1**

LM is preparing its consolidated financial statements for the year ended 30 April 20X5. During the year LM acquired 30% of the equity shares of AB giving it significant influence over AB.

LM conducted ratio analysis comparing the financial performance of the group for 30 April 20X4 and 20X5.

Which of the following ratios would not be comparable as a result of the acquisition of AB?

- A. Operating profit margin.
- B. Return on capital employed.
- C. Earnings per share.
- D. Interest cover.

Correct Answer: C

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**QUESTION 2**

PQ entered into a \$300,000 contract on 1 January 20X9 to provide computer hardware to WX with support services for the 3 years from the date of installation. The contract is made up as follows:

	<b>\$'000</b>
Hardware	150
Installation fees	75
3 years' support services	<u>75</u>
	<b>300</b>

The hardware was delivered to WX on 1 January 20X9 and installed immediately. WX paid the full value of the contract on 30 June 20X9. What journal entry records PQ's revenue from this contract for the year ended 31 December 20X9?

Dr Cash	\$300,00
Cr Revenue	\$250,00
Cr Deferred Income	\$50,000

Dr Cash	\$300,00
Cr Revenue	\$237,50
Cr Accrued Income	\$62,500

Dr Cash	\$300,00
Cr Revenue	\$250,00
Cr Accrued Income	\$50,000

Dr Cash	\$300,00
Cr Revenue	\$237,50
Cr Deferred Income	\$62,500

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: C

### QUESTION 3

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

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#### QUESTION 4

The financial statements of ST at 31 December 20X9 include the following balances in respect of shares classed as equity:

	<b>\$000</b>
Equity share capital (50c shares)	1,000
5% Irredeemable preference share capital	500

The profit after tax for the year ended 31 December 20X9 is \$200,000. What is ST\'s basic EPS for the year to 31 December 20X9?

- A. 8.8 cents
- B. 17.5 cents
- C. 20.0 cents
- D. 10.0 cents

Correct Answer: A

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#### QUESTION 5

Which of the following actions would be most likely to improve an entity's gross profit margin?

- A. Negotiating with trade suppliers for a bulk purchase discount
- B. Offering increased credit to customers
- C. Reducing administrative expenses by 10%
- D. Writing down the value of obsolete inventories

Correct Answer: A

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