

CIMAPRA19-F02-1^{Q&As}

F2 - Advanced Financial Reporting

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QUESTION 1

PQ is a retail business. In recent years they have improved their financial performance and increased their revenue. The following ratios have been calculated for the years ended 31 December 20X4 and 20X3: Which of the following explanations of PQ's financial performance is consistent with these ratios?

	20X4	20X3
Gross profit margin	28.8%	25.1%
Operating profit margin	13.5%	10.0%
Administrative expenses as a percentage of revenue	6.2%	6.0%

- A. In 20X4 PQ reduced the unit selling price resulting in an increase in volumes sold and an increase in overall revenue.
- B. PQ changed suppliers early in 20X4 because the new supplier agreed to supply the same goods at a cheaper price.
- C. In 20X4 taxation legislation was amended which reduced the rate of corporate income tax by 3.5%.
- D. In 20X4 PQ sold a retail outlet resulting in a significant gain on disposal which has been deducted from administrative expenses.

Correct Answer: B

QUESTION 2

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

QUESTION 3

An accountant acting under their Code of Ethics would do which THREE of the following?

- A. Resist pressure from the directors to recognise revenue on sales where the risks and rewards have not transferred to the customer.
- B. Report material conflicts of interest to a more senior level.
- C. Reject a justified change to a depreciation policy that increases profitability.
- D. Accept a recommendation from the audit committee to increase segregation of duties within the finance department.
- E. Make a provision for a liability of uncertain timing or amount, requested by the directors, where there is NOT a present obligation.
- F. Accept a director's instruction to remove one element of their remuneration from the directors' remuneration report.

Correct Answer: ABD

QUESTION 4

The basic earning per share computed by a company for year ended 31st March 20X7 is £2 per share. The company had certain convertible debentures outstanding as on 31st March 20X7. The conversion of debentures to equity shares would result in the earnings per share to be ?2. Which of the following should the company disclose?

- A. Basic earnings per share only
- B. Diluted earnings per share only
- C. Both basic and diluted earnings per share
- D. Neither basic nor diluted earnings per share

Correct Answer: A

QUESTION 5

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

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