

CIMA F1 Financial Reporting and Taxation

OTQ Practice and Revision Kit errata/ clarifications

1. Chapter 1 Regulation and corporate governance: **Q1.7** the requirement should say “Which THREE of the following are the responsibilities of the IFRS Foundation Trustees?”
2. Chapter 1 Regulation and corporate governance: **Q1.9** the requirement should say “Which FOUR of the following are characteristics of a purely principles-based approach to corporate governance?”
3. Chapter 1 Regulation and corporate governance: **Q1.10** the requirement should say “Which TWO of the following characteristics of a rules-based approach to corporate governance?”
4. Chapter 2 External audit: **Q2.7** the requirement should say “Which FOUR of the following are explicit elements of an unmodified external audit report according to ISA 700: *Forming an opinion and reporting on financial statements*?”
5. Chapter 4 The conceptual framework: **Q4.5** the requirement should say “Which THREE of the following options are advantages of the IASB’s *Conceptual framework for financial reporting*?”
6. Chapter 4 The conceptual framework: **Q4.7** the requirement should say “Which TWO of the following are the fundamental qualitative characteristics of financial information per the IASB’s *Conceptual framework for financial reporting*? “
7. Chapter 5 Presentation of published financial statements: **Q5.4** the requirement should say “Which TWO of the following options do NOT describe prior period errors?”
8. Chapter 5 Presentation of published financial statements: **Q5.6** the first line of the financial information should say “Profit for the period \$29m” not “Retained earnings \$29m”.
9. Chapter 6 Non-current assets I: **Q6.1** the requirement should say “Which THREE of the following costs can be included in the total cost of producing an asset by a company for its own use?” Also option E should say “On-going maintenance charges for the asset”.
10. Chapter 6 Non-current assets I: **Q6.2** the requirement should say “Which TWO of the following can be included in the calculation of the cost of a non-current asset as per IAS 16?”
11. Chapter 7 Non-current assets II: **Q7.1** the requirement should say “Which THREE of the following are required in order for a property to be defined as an investment property according to IAS 40: *Investment property*?”

12. The solution to Q7.1 should say

A, C, D The correct answers are:

An investment property is:

- An investment in land and/ or buildings.
- Held for its investment potential.
- Not occupied by the reporting entity for its own purposes.

An investment property is a special category of land and buildings. Any rental income should be negotiated at arm's length. A company (or related group company) cannot occupy an investment property.

13. Chapter 7 Non-current assets II: Q7.10 option D should read "capitalisation rate" rather than "capitalization rate"

14. Chapter 8 Non-current assets III: Q8.1 the requirement should say "Which THREE of the following accounting policies WOULD contravene International Financial Reporting Standards if adopted by a company?"

15. Chapter 9 Impairment of assets: The solution to Q9.3 should say:

$$\begin{aligned}\text{Carrying amount of building at 30 Sept 20X5} &= \$1.8\text{m} - (\$1.8\text{m}/18) \\ &= \$1.7\text{m}\end{aligned}$$

16. Chapter 9 Impairment of assets: Please **replace the existing Q9.5** with the following question and solution:

DS purchased a machine on 1 October 20X2 at a cost of \$21,000. The machine had an expected useful life of six years with no expected residual value. DS depreciates its machines using the straight line basis.

The machine has been used and depreciated for three years to 30 September 20X5. New technology was invented in December 20X5, before the financial statements for the year ended 30 September 20X5 were authorised for issue, which enabled a cheaper, more efficient machine to be produced. The Board of DS have realised that this new technology will make their type of machine obsolete in the next couple of years and have concluded that their machine has a fair value of \$9,200 and a value in use of \$9,000. Selling costs of \$500 would be incurred were DS to sell the machine.

Calculate the impairment loss to be recognised in the financial statements for the year ended 30 September 20X5.

\$

Feedback

The correct answer is: \$1,500

The carrying amount of the machine at 30 September 20X5 is \$10,500 ($\$21,000 / 6 \text{ years} \times 3 \text{ years}$).

The recoverable amount of the asset at 30 September 20X5 is \$9,000. This is the higher of the asset's fair value less costs to sell ($\$9,200 - \500) and its value in use (\$9,000).

Therefore the impairment loss is \$1,500 ($\$10,500 - \$9,000$).

17. Chapter 10 Reporting financial performance I: **Q10.1** should say "Company X closed one of its divisions 10 months ago." The solution is correct.
18. Chapter 10 Reporting financial performance I: **Q10.6** the requirement should say "Which TWO of the following criteria need NOT be satisfied in order for a division to be classified as "held for sale" in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*?"
19. Chapter 10 Reporting financial performance I: **Q10.7** the first line of the second paragraph should say "The carrying amounts of the property, plant and equipment held by the discontinued operation on 1 April 20X0 were as follows:" The solution is correct.
20. Chapter 10 Reporting financial performance I: **solution to Q10.8** the penultimate line of the solution should say: "Note that the asset is only depreciated up to 1 October 20X3 when it is classified as held for sale".
21. Chapter 10 Reporting financial performance I: **Q10.10** the requirement should say "Under IFRS 5, which TWO of the following are NOT factors in an operation being treated as a discontinued activity in the financial statements?"

22. Chapter 11 Reporting financial performance II: **Q11.1** the requirement should say “Which TWO of the following statements, in respect of foreign currency translation, are correct according to IAS 21: *The effects of changes in foreign exchange rates?*”
23. Chapter 11 Reporting financial performance II: **Q11.6** the requirement should say “Which TWO of the following statements is correct regarding the restatement of foreign currency assets and liabilities in the financial statements of a single entity at the reporting date?”
24. Chapter 12 Employee Benefits: **Q12.6** the requirement should say “Which TWO of the following terms are used to define pension schemes as identified by IAS 19: *Employee benefits?*”
25. Chapter 13 Statement of cash flows: **Q13.7** the requirement should say “Which THREE of the following items are included in this movement?”
26. Chapter 13 Statement of cash flows: **Q13.8** the requirement should say “Which THREE of the following items should NOT appear in a company’s statement of cash flows?”
27. Chapter 15 The consolidated statement of financial position II: **solution to Q15.4** W1 is missing and should read:

W1	
	\$000
At 31 December 20X6	880
Less profit for the year	<u>(144)</u>
At 1 January 20X6	736
Add profit to 1 May 20X6 ($\$144,000 \times \frac{4}{12}$)	<u>48</u>
Retained earnings of JK at 1 May 20X6	<u>784</u>

28. Chapter 15 The consolidated statement of financial position II: **Q15.10** the requirement should say “What amount will appear in the consolidated statement of financial position of the MX group for retained earnings as at 31 December 20X9?”
29. Chapter 17 Associates: **Q17.2** the first sentence in the second line of the question should say “EF sold goods to AB on 1 May 20X9 with a sales value of \$80,000.”
30. Chapter 17 Associates: **Q17.3** the second line of the question should say “Extracts from the statements of profit or loss for the year ended 31 October 20X7:”

31. Chapter 20 International and indirect taxation: Q20.8 above the question requirement there should a line which says "Underlying tax is \$40,000".

The solution to Q20.8 should say:

The correct answer is: \$0.

Tax paid in Country A:

WHT: \$12,000
 ULT: \$40,000

Tax due in Country B:

	\$
Gross dividend	80,000
Add: underlying tax	<u>40,000</u>
	120,000
Tax at 30%	36,000
Less: DTR for WHT	(12,000)
Less DTR for ULT (capped at \$24,000)	<u>(24,000)</u>
Tax payable	<u>0*</u>

* Tax credit cannot create a refund of tax

32. Chapter 21 Working capital and the operating cycle: Q21.3 the fourth line in the question should say "Trade payables payment period 67 days" not "Work in progress inventory turnover period 67 days".
33. Chapter 21 Working capital and the operating cycle: solution to Q21.8 the solution is incorrect and should be option "A" Inventory days plus accounts receivable days less accounts payable days.
34. Chapter 22 Cash flow forecasts: Q22.7 the question should say "The budget for the cost of raw materials used in the six month period to 30 September is \$372,000".

The solution to Q22.7 is correct at \$'000: 395 but the working should say:

This is calculated as:

	\$'000
Inventory b/f	39
Inventory purchased (balancing figure)	384
Inventory c/f	<u>(51)</u>
Inventory used	<u>372</u>
Payables b/f	58
Purchases (from inventory working)	384
Payables c/f	<u>(47)</u>
Cash paid	<u>395</u>

35. Chapter 24 Receivables and payables: Q24.5 the third option should say "Reduction in credit rating"

36. Chapter 25 Managing inventory: **Q25.2** the requirement should say “Which FOUR of the following items SHOULD be included in arriving at the cost of the inventory of finished goods held by a manufacturing company, according to IAS 2: *Inventories*?”
37. Chapter 25 Managing inventory: **Q25.4** the requirement should say “Which THREE of the following describe situations where the net realisable value of inventory will be less than cost?”
38. Chapter 26 Mixed Bank 1: **Q26.3** the requirement should say “Which TWO of the following non-current assets would normally require depreciation?”
39. Chapter 27 Mixed Bank 2: **Q27.2** the requirement should say “Which THREE of the following are NOT an underlying assumption from the IASB’s *Conceptual Framework for Financial Reporting*?”
40. Chapter 27 Mixed Bank 2: **Q27.9** option B should read “114 days” not “144 days”.
41. Chapter 27 Mixed Bank 2: **solution to Q27.9**, the first line of the solution should say “114 days” not “144 days”.
42. Chapter 28 Mixed Bank 3: **Q28.2** the requirement should say “Which TWO of the following options are benefits which accrue from having a conceptual framework such as the IASB’s *Conceptual Framework for Financial Reporting*?”
43. Chapter 28 Mixed Bank 3: **Q28.3** the requirement should say “Which of the following would NOT be classified as an investment property according to IAS 40: *Investment property*?”
44. Chapter 29 Mixed Bank 4: **Q29.4** the “\$” sign above the box where the solution is entered should say “\$’000”.
45. Chapter 30 Mixed Bank 5: **Q30.4** the requirement should say “Which THREE of the following are ‘monetary items’ as far as IAS 21 is concerned?”
46. Chapter 31 Mixed Bank 6: **Q31.10** the requirement should say “What does Ch describe in this formula?”
47. Chapter 32 Mixed Bank 7: **Q32.3** the requirement should say “Which TWO of the following conditions would preclude any part of the development expenditure to which it relates from being capitalised?”
48. Chapter 32 Mixed Bank 7: **Q32.5** the requirement should say “Which FOUR of the following items could be included in cash?”
49. Chapter 33 Mixed Bank 8: **Q33.2** the requirement should say “Which TWO of the following are reasons why segment reporting in the financial statements is considered to be useful to readers of the financial statements?”
50. Chapter 33 Mixed Bank 8: **Q33.4** the requirement should say “Which THREE of the following events after the reporting period would normally be classified as non-adjusting, according to IAS 10: *Events after the reporting period*?”

51. Chapter 33 Mixed Bank 8: the **solution to Q33.7** should say:

	\$
Dividend received	150,000
Tax credit (150,000 / 75 × 25)	<u>50,000</u>
Gross dividend	200,000
Tax at 30%	60,000
Less tax credit	<u>(50,000)</u>
Tax to pay	<u>10,000</u>

52. Chapter 33 Mixed Bank 8: **Q33.8** above the requirement there is a line missing which should say: "Underlying tax is \$20,000".

Solution to Q33.8 is correct but the feedback should say:

Tax due in Country Y

	\$
Gross dividend	100,000
Add: underlying tax	<u>20,000</u>
	120,000
Tax at 40%	48,000
Less: DTR for WHT	(10,000)
Less: DTR for ULT	<u>(20,000)</u>
Tax payable	<u>18,000</u>

Double tax relief = \$10,000 + \$20,000 = \$30,000