CIMA Financial Reporting (F1) Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **Who is the lessor?**
    - A. The entity that uses the asset
    - B. The entity that provides the right of use asset
    - C. The broker arranging the lease
    - D. The lessee's financial lender

2. **Cash outflows when repaying interest on a loan are classified in the cash flow statement under which section?**
    - A. Operating activities
    - B. Financing activities
    - C. Investing activities
    - D. Non-cash financing

3. **What is the finished goods inventory holding period?**
    - A. average finished goods inventory held / cost of goods sold x 365
    - B. average finished goods inventory held / sales x 365
    - C. average finished goods inventory held / gross profit x 365
    - D. average finished goods inventory held / total assets x 365

4. **Which of the following is an element of financial statements?**
    - A. Income
    - B. Cash
    - C. Market value
    - D. Forecasts

5. **Which of the following is NOT one of the four aspects of receivables management?**
    - A. Assessing customer's credit worthiness
    - B. Setting credit limits
    - C. Invoicing promptly and collecting overdue debts
    - D. Managing inventory turnover

6. Under IFRS 5, how is a discontinued operation defined?

- **A. A component of an entity that has been disposed of or is classified as held for sale**
- **B. A segment of the business that has ceased operations**
- **C. An asset that has been fully depreciated**
- **D. A project that is no longer planned**

7. Split rate system

- **A. Split rate system**
- **B. Classical system**
- **C. Imputation system**
- **D. Partial imputation system**

8. What is the UK's Terminal Loss Relief system?

- **A. If the entity ceases to trade, it allows the entity to carry back the loss against profits of previous years to generate a tax refund**
- **B. It allows the loss to be carried forward to future profits**
- **C. It offsets losses against capital gains**
- **D. It provides no relief**

9. What are cash equivalents?

- **A. Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value**
- **B. Long-term investments maturing in more than a year**
- **C. Bank overdrafts**
- **D. Accounts receivable**

10. Under the Conceptual Framework for Financial Reporting, recognition occurs when an item meets which condition?

- **A. It meets the definition of an element and provides users with useful information.**
- **B. It is material to the financial statements.**
- **C. It is cash-based.**
- **D. It is approved by management.**

Answers

1. B
2. A
3. A
4. A
5. D
6. A
7. A
8. A
9. A
10. A

Explanations

1. Who is the lessor?

A. The entity that uses the asset

<u>**B. The entity that provides the right of use asset**</u>

C. The broker arranging the lease

D. The lessee's financial lender

In a lease, two main parties sit at the center: the lessee, who uses the asset, and the lessor, who owns the asset and provides its use to the lessee in exchange for payments. The lessor is therefore the entity that provides the right of use asset. For example, a car-leasing company leases a car to a business; the leasing company is the lessor because it owns the car and grants that use to the lessee. The other options describe the user, a broker, or a lender, none of which define the lessor. In accounting terms, the lessee recognizes a right-of-use asset, while the lessor retains ownership and records appropriate lease-theory effects depending on the lease type.

2. Cash outflows when repaying interest on a loan are classified in the cash flow statement under which section?

<u>**A. Operating activities**</u>

B. Financing activities

C. Investing activities

D. Non-cash financing

Cash flows from operating activities include the cash effects of the entity’s main operations, and the ongoing cost of borrowing is treated as part of those day-to-day operating cash outflows. Interest paid represents the cost of financing the business and, by the standard presentation, is shown as an operating cash outflow rather than as a financing outflow for the repayment of principal. The repayment of principal would be classified as financing activities, while investing activities cover purchases or sales of assets. (Note: some frameworks allow interest paid to be classified as financing, but the common exam convention is to present it as operating.) Therefore, the cash outflow for repaying interest on a loan is shown under operating activities.

3. What is the finished goods inventory holding period?

<u>**A. average finished goods inventory held / cost of goods sold x 365**</u>

B. average finished goods inventory held / sales x 365

C. average finished goods inventory held / gross profit x 365

D. average finished goods inventory held / total assets x 365

The finished goods inventory holding period shows, on average, how many days finished goods remain in stock before being sold. It’s calculated by taking the average finished goods inventory for the period, dividing it by the cost of goods sold for the same period, and multiplying by 365 days. Using cost of goods sold makes sense because it reflects the rate at which inventory is converted into cost of sales; it ties the stock level to the actual flow of goods. Using sales would measure how quickly revenue is earned, not how long inventory sits; gross profit ignores the cost side, and total assets mix in other items not directly related to inventory turnover. So the correct approach is average finished goods inventory divided by COGS, times 365.

4. Which of the following is an element of financial statements?

A. Income

B. Cash

C. Market value

D. Forecasts

Financial statements are built from five fundamental elements: assets, liabilities, equity, income and expenses. Income is the element because it represents the increases in equity from the entity’s performance, such as revenue from ordinary activities or gains, which raise the entity’s net assets. Cash is not an element itself; it’s a specific asset within the assets category. Market value is a measurement concept used to value items, not an element. Forecasts are forward-looking and not recognized as elements in the financial statements.

5. Which of the following is NOT one of the four aspects of receivables management?

A. Assessing customer's credit worthiness

B. Setting credit limits

C. Invoicing promptly and collecting overdue debts

D. Managing inventory turnover

Receivables management focuses on turning credit sales into cash while controlling the risk of non-payment. The main activities include assessing a customer’s creditworthiness before extending credit, setting appropriate credit limits to cap exposure, and invoicing promptly while pursuing overdue debts to maintain cash flow. Managing inventory turnover, by contrast, deals with stock levels and how quickly inventory is sold, not with how receivables are granted, billed, or collected. So the item that does not fit the four aspects of receivables management is about inventory turnover.

6. Under IFRS 5, how is a discontinued operation defined?

A. A component of an entity that has been disposed of or is classified as held for sale

B. A segment of the business that has ceased operations

C. An asset that has been fully depreciated

D. A project that is no longer planned

Under IFRS 5, a discontinued operation is identified when a component of the entity has been disposed of or is classified as held for sale. This trigger is the starting point for determining whether presenting something as a discontinued operation is appropriate, with the additional criteria (separate major line of business or geographic area, part of a coordinated plan to dispose, or a subsidiary acquired solely to be disposed of) used to decide if that disposed-of or held-for-sale component should be shown as discontinued in the financial statements. The option reflects this disposal or held-for-sale condition, which is the key criterion. The other scenarios described—ceasing operations in a segment, an asset fully depreciated, or an unplanned project—do not, by themselves, align with the IFRS 5 definition of a discontinued operation.

7. Split rate system

- A. Split rate system
- B. Classical system
- C. Imputation system
- D. Partial imputation system

In a split-rate system, profits are taxed at two different corporate rates depending on what happens to them. Specifically, profits that are retained in the company are taxed at one rate, while profits that are distributed as dividends are taxed at a lower rate. The aim is to reduce the overall tax burden on distributed profits and to reflect that some tax has already been paid at the company level, helping to avoid or lessen double taxation. This approach sits between the classical system (where profits are taxed at the company level with no relief for distributions) and imputation or partial-imputation schemes (which provide relief to shareholders through credits). So, when a scenario involves two distinct tax rates tied to whether profits are kept or handed out as dividends, the split-rate system is the appropriate description.

8. What is the UK's Terminal Loss Relief system?

- A. If the entity ceases to trade, it allows the entity to carry back the loss against profits of previous years to generate a tax refund
- B. It allows the loss to be carried forward to future profits
- C. It offsets losses against capital gains
- D. It provides no relief

Terminal loss relief applies when a business ceases trading. The loss that arises in the final period can be carried back to offset profits of earlier accounting periods, producing a tax refund for those earlier years. This relief helps soften the tax impact of closing the business by reclaiming tax previously paid on profits. It isn't about carrying the loss forward to future profits, nor about offsetting against capital gains, and it does provide relief, so the other options don't fit.

9. What are cash equivalents?

- A. Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value
- B. Long-term investments maturing in more than a year
- C. Bank overdrafts
- D. Accounts receivable

Cash equivalents are short-term, highly liquid investments that can be quickly converted into a known amount of cash with little or no risk of a change in value. They are typically investments with an original maturity of three months or less from the date of acquisition and are held to meet short-term liquidity needs, not for ongoing investment. This is why items like Treasury bills and other money market instruments fit as cash equivalents. They are not long-term investments, bank overdrafts, or accounts receivable, which are not near-cash items.

10. Under the Conceptual Framework for Financial Reporting, recognition occurs when an item meets which condition?

A. It meets the definition of an element and provides users with useful information.

B. It is material to the financial statements.

C. It is cash-based.

D. It is approved by management.

Recognition happens when an item is an element of financial statements and provides users with useful information. The item must belong to one of the defined elements (asset, liability, equity, income, or expense) and its inclusion should give decision-useful information to users, which comes from being capable of measurement and faithful representation. The other options miss the fundamental gate for recognition: materiality affects whether an item is disclosed or emphasized, not whether it is recognized; being cash-based is not a requirement; and management approval isn't a recognition condition.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we’d love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cimaf1.examzify.com

We wish you the very best on your exam journey. You've got this!