CIMA FINANCIAL REPORTING (F1) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. Which of the following is a reason for claiming group loss relief?

A. Relief can be claimed earlier because the surrendering entity does not expect to make a profit in the foreseeable future.

B. Tax can be saved because the entity the loss is surrendered to pays a higher rate of tax than the surrendering entity.

C. It reduces the tax payable for both entities by the same amount

D. It is only available if both entities have profits

2. What describes an acceptance credit?

A. Bank issues a letter of credit guaranteeing payment to the supplier.

B. Bank accepts the instrument drawn upon by its customer and then sells it into a secondary market at a discount, passing the proceeds to its client.

C. Bank purchases goods on behalf of the client and extends credit.

D. Bank guarantees the payment of the instrument but does not buy it.

3. What is a lease?

A. A contract that conveys the right to use an underlying asset for some time in exchange for consideration

B. A loan secured by an asset

C. A sale of an asset with a right to repurchase

D. A short-term rental agreement for equipment

4. What is depreciation?

A. The systematic allocation of the depreciable amount of an asset over its useful life.

B. The write-down of an asset to zero value immediately.

C. The recognition of revenue from asset use.

D. The decline in market value of an asset.

5. 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

6. Who bears the actual/effective incidence of a tax?

A. The customer

B. The seller

C. The government

D. The auditor

7. How should asset cost be measured under IAS 16?

A. Purchase price; directly attributable costs; initial estimate of dismantling and restoring costs

B. Only purchase price

C. Maintenance costs after purchase

D. Insurance costs after purchase

8. What is the definition of output tax in VAT?

A. Net VAT after adjustments

B. VAT rate applied to purchases

C. VAT charged on sales to customers

D. VAT paid on purchases

9. Who is the lessee?

A. The entity that grants the right to use the asset

B. The entity that funds the purchase of the asset

C. The entity that obtains the use of the right of use asset

D. The asset owner

10. Which of the following is an example of a tax base?

A. Income

B. Tax rate

C. Tax collection method

D. Penalty

Answers

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

Explanations

1. Which of the following is a reason for claiming group loss relief?

A. Relief can be claimed earlier because the surrendering entity does not expect to make a profit in the foreseeable future.

B. Tax can be saved because the entity the loss is surrendered to pays a higher rate of tax than the surrendering entity.

C. It reduces the tax payable for both entities by the same amount

D. It is only available if both entities have profits

Group loss relief lets a loss-making group company surrender its trading losses to another group member that has profits, offsetting those profits for tax purposes. The tax saving for the group comes from reducing the recipient's taxable profits by the amount of the surrendered loss, with the saving equal to that amount multiplied by the recipient's corporation tax rate. If the receiving entity pays a higher tax rate than the surrendering entity, shifting the loss to them reduces tax by a larger amount, which is why this is the reason for the relief. It isn't about the surrendering entity expecting no profit, nor does it reduce both entities' tax by the same amount, and relief requires the receiving company to have profits to absorb the loss.

2. What describes an acceptance credit?

A. Bank issues a letter of credit guaranteeing payment to the supplier.

B. Bank accepts the instrument drawn upon by its customer and then sells it into a secondary market at a discount, passing the proceeds to its client.

C. Bank purchases goods on behalf of the client and extends credit.

D. Bank guarantees the payment of the instrument but does not buy it.

An acceptance credit involves a banker's acceptance. The bank signs/accepts a bill of exchange drawn on its customer, making itself liable to pay when the bill matures. To raise cash for the customer, the bank then sells that accepted bill in the secondary market at a discount, passing the proceeds to the client. The bank earns income from the discount, while the instrument remains a negotiable obligation that can be transferred to others. This differs from a letter of credit, which is a payment obligation to the supplier; from the bank purchasing goods or extending credit directly to the client, and from merely guaranteeing the instrument without actually buying it.

3. What is a lease?

A. A contract that conveys the right to use an underlying asset for some time in exchange for consideration

B. A loan secured by an asset

C. A sale of an asset with a right to repurchase

D. A short-term rental agreement for equipment

A lease is a contract that gives the right to control the use of an identified asset for a period of time in exchange for consideration. This captures the essential features: there is an identified asset, the parties obtain the right to use it for a defined period, and payments are made in return. Ownership may stay with the supplier; the key is control of use for the arrangement's term. The option described fits this precisely because it states a contract conveys the right to use an underlying asset for some time in exchange for consideration. The other descriptions describe financing secured by an asset, a sale with a right to repurchase, or a short-term rental, which do not capture the fundamental lease criteria of transferring the right to control use of an identified asset for a period in exchange for payments.

4. What is depreciation?

A. The systematic allocation of the depreciable amount of an asset over its useful life.

B. The write-down of an asset to zero value immediately.

C. The recognition of revenue from asset use.

D. The decline in market value of an asset.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the asset's cost minus any residual value, and the idea is to match the cost of using the asset with the periods that benefit from its use. It's a non-cash expense recognized in the income statement and it gradually reduces the asset's carrying amount on the balance sheet. It isn't a write-down to zero value (that would be impairment or disposal), it isn't revenue from using the asset, and it isn't a decline in market value (that would reflect impairment or fair value changes). Different depreciation methods can be used, but the core concept is spreading the cost over the asset's useful life.

5. 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

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.

6. Who bears the actual/effective incidence of a tax?

A. The customer

B. The seller

C. The government

D. The auditor

Tax incidence is about who ultimately bears the burden, not who writes the check to the tax authority. The actual distribution depends on relative price responses (elasticities) of buyers and sellers. If buyers are relatively inelastic—meaning they won't cut back much on quantity when the price rises—they end up paying most of the tax through higher prices. Sellers may still receive less per unit, but the price consumers pay increases by a larger share of the tax, shifting most of the burden onto buyers. While the exact split can vary with different markets, in many typical cases the customer ends up bearing the effective tax burden, which is why the correct answer points to the customer.

7. How should asset cost be measured under IAS 16?

A. Purchase price; directly attributable costs; initial estimate of dismantling and restoring costs

B. Only purchase price

C. Maintenance costs after purchase

D. Insurance costs after purchase

Under IAS 16, the cost of a tangible asset is not just the purchase price. It includes all costs directly attributable to bringing the asset to a location and condition necessary for it to be capable of operating as intended. This means you add the purchase price, costs directly tied to getting the asset ready (such as delivery, installation, testing, and professional fees), and also the initial estimate of dismantling, removing, and restoring the site (the decommissioning obligation). That dismantling/restoration cost is recognized as a liability and included in the asset's cost at present value. Maintenance costs after purchase and insurance costs after purchase are not part of the initial cost. They are treated as expenses as incurred, since they relate to keeping the asset running or protecting it over time, rather than bringing it to its usable condition for its intended purpose. The only time such costs would be capitalized is if they meet specific criteria for capitalization as part of bringing the asset to a working condition, but routine maintenance and insurance typically do not. So the best approach is to include the purchase price, directly attributable costs, and the initial estimate of dismantling and restoring costs in the asset's cost.

8. What is the definition of output tax in VAT?

A. Net VAT after adjustments

B. VAT rate applied to purchases

C. VAT charged on sales to customers

D. VAT paid on purchases

Output tax is the VAT added to the price of sales to customers. It's the tax you collect from customers and pass on to the tax authority, after deducting any VAT you've paid on purchases (input tax). The net amount you owe is output tax minus input tax. For example, if you charge customers 20,000 in VAT on sales and you've paid 5,000 VAT on purchases, you would remit 15,000 to the tax authority. The description that refers to VAT paid on purchases describes input tax, not output tax.

9. Who is the lessee?

A. The entity that grants the right to use the asset

B. The entity that funds the purchase of the asset

C. The entity that obtains the use of the right of use asset

D. The asset owner

The lessee is the party that uses the asset under the lease for a period in exchange for payments, obtaining the right to use the asset without owning it. That makes the entity that obtains the use of the right-of-use asset the lessee. The one who grants the right to use the asset is the owner or lessor, not the lessee. The entity that funds the purchase isn't defined by who uses the asset, and the asset owner is the lessor. In practice, the lessee records a right-of-use asset and a lease liability for the terms of the agreement.

10. Which of the following is an example of a tax base?

A. Income

B. Tax rate

C. Tax collection method

D. Penalty

A tax base is the amount or value on which a tax is charged. In income tax, the base is income—the earnings of an individual or business. The tax due is calculated by applying the tax rate to that base (often after allowable deductions and exemptions). The other items aren't bases: the tax rate is the percentage applied to the base, not the amount taxed; the collection method describes how taxes are collected; and a penalty is a consequence for non-compliance, not the taxed amount.

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!