# 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.

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# 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!

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# Questions

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**1. Under asset impairment rules, when should an impairment review be performed?**

A. Only when there is an indication that an asset may be impaired

B. Annually for all assets

C. Only when fair value increases

D. As part of routine inventory count

**2. In the straight-line depreciation method, depreciation is calculated as**

A. Original cost x %

B. Carrying amount = cost minus accumulated depreciation

C. (Original cost - Residual value) / Estimated useful life

D. The fair value of the asset

**3. What is the formula for the current ratio?**

A. Current liabilities divided by current assets.

B. Current assets divided by current liabilities.

C. Net assets divided by current liabilities.

D. Total assets divided by total liabilities.

**4. 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.

**5. In managing trade receivables, the main objective is to balance liquidity with profitability by doing what?**

A. Extending credit to customers to encourage sales while collecting receipts promptly.

B. Extending credit only to all customers.

C. Avoiding all credit terms.

D. Relying solely on cash sales.

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**6. To mitigate taxing overseas income twice is the aim of which tax relief concept?**

A. To avoid any overseas taxation

B. To ensure tax is charged only in the home country

C. To mitigate taxing overseas income twice

D. To eliminate all overseas tax obligations

**7. ROL is calculated using which of the following combinations?**

A. Maximum demand × minimum lead time

B. Average demand × maximum lead time

C. Minimum demand × maximum lead time

D. Maximum demand × maximum lead time

**8. Which of the following is an indirect tax?**

A. Income tax

B. VAT

C. Corporate tax

D. Property tax

**9. Which of the following sets comprises the enhancing qualitative characteristics?**

A. Comparability, Verifiability, Timeliness.

B. Relevance, Faithful Representation.

C. Neutrality, Materiality.

D. Timeliness, Relevance.

**10. Which formula correctly calculates the proceeds from a share issue for the statement of cash flows?**

A. ordinary shares + share premium year 2 - ordinary shares + share premium year 1

B. net proceeds from share issue

C. cash inflows from financing activities

D. par value only

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# Answers

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

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# Explanations

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## 1. Under asset impairment rules, when should an impairment review be performed?

A. Only when there is an indication that an asset may be impaired

B. Annually for all assets

C. Only when fair value increases

D. As part of routine inventory count

*Impairment reviews are triggered by indicators of impairment. You assess at each reporting date whether external or internal signs suggest an asset's recoverable amount may be less than its carrying amount. If indicators exist, you estimate recoverable amount and recognize an impairment if the carrying amount exceeds it. For most assets, you don't test yearly; you test only when there are indications of possible impairment. An exception is goodwill and some indefinite lived intangible assets, which must be tested at least annually regardless of indicators. So the option stating you review only when there is an indication is the best fit.*

## 2. In the straight-line depreciation method, depreciation is calculated as

A. Original cost x %

B. Carrying amount = cost minus accumulated depreciation

C. (Original cost - Residual value) / Estimated useful life

D. The fair value of the asset

*Straight-line depreciation spreads the asset's cost evenly over its useful life by charging the same amount each year. The amount depreciable each time is the original cost minus the estimated residual value, and you divide that by the estimated useful life to get the annual depreciation. So the formula is (cost − residual value) ÷ useful life. For example, if an asset costs 100,000, has a residual value of 10,000, and a useful life of 5 years, annual depreciation is (100,000 − 10,000) ÷ 5 = 18,000 per year. The other ideas don't fit straight-line depreciation. Multiplying original cost by a fixed percentage would give a depreciation amount based only on cost and a rate, not reflecting residual value or the asset's life clearly. The carrying amount (cost minus accumulated depreciation) describes net book value after depreciation is recorded, not how to calculate the annual depreciation expense. Using fair value ignores the cost basis and the estimated life altogether, which isn't how straight-line depreciation works.*

## 3. What is the formula for the current ratio?

A. Current liabilities divided by current assets.

B. Current assets divided by current liabilities.

C. Net assets divided by current liabilities.

D. Total assets divided by total liabilities.

*Short-term liquidity is about whether a business can meet its obligations that are due soon from the assets it can readily convert to cash. The formula used is current assets divided by current liabilities. This shows how many dollars of resources that can be turned into cash within a year are available for every dollar of obligations due in that period. Current assets include cash, receivables, and inventory, while current liabilities include payables and short-term borrowings. A higher ratio indicates greater ability to cover short-term debts, though very high values can suggest underutilized assets. The other options mix up the concept: inverting the ratio would not reflect liquidity; using net assets instead of current assets shifts to a different measure; and total assets over total liabilities is a broader solvency ratio, not the liquidity measure asked for.*

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**4. 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.*

**5. In managing trade receivables, the main objective is to balance liquidity with profitability by doing what?**

A. Extending credit to customers to encourage sales while collecting receipts promptly.

B. Extending credit only to all customers.

C. Avoiding all credit terms.

D. Relying solely on cash sales.

*Balancing liquidity with profitability means offering credit to customers to boost sales while ensuring receipts come in promptly to maintain cash flow. Extending credit lets customers buy on terms, which can increase revenue and market share. But it must be paired with effective credit control—checking creditworthiness, setting appropriate limits and terms, and pursuing overdue accounts—to keep liquidity healthy and reduce bad debts. Avoiding credit altogether would cap sales and profit; extending credit to all customers could threaten cash flow; relying only on cash sales ignores demand and limits growth.*

**6. To mitigate taxing overseas income twice is the aim of which tax relief concept?**

A. To avoid any overseas taxation

B. To ensure tax is charged only in the home country

C. To mitigate taxing overseas income twice

D. To eliminate all overseas tax obligations

*Double taxation relief is designed to prevent the same overseas income from being taxed twice. When you earn income abroad, it can be taxed both by the foreign country and by your home country. The relief works by giving credit for foreign tax paid against your home-country tax, or by exempting or deducting the foreign-source portion from your home tax base. This means you're not subject to a full double tax burden, even though some overseas tax may still be due. It isn't about avoiding all overseas taxation or ensuring taxation occurs only in the home country; the goal is to avoid taxing the same income twice.*

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## 7. ROL is calculated using which of the following combinations?

A. Maximum demand × minimum lead time

B. Average demand × maximum lead time

C. Minimum demand × maximum lead time

D. Maximum demand × maximum lead time

*Reorder level is the stock level at which you trigger a new order to arrive before you run out during the purchase lead time. When you want to guard against the worst-case, you base this level on the maximum amount that could be used over the longest possible lead time. That means multiplying the maximum possible demand by the maximum possible lead time so you have enough stock even if demand spikes and the lead time is longer than expected. The other options would understate the required stock in such worst-case scenarios, risking a stockout. So the safest, most protective approach is maximum demand × maximum lead time.*

## 8. Which of the following is an indirect tax?

A. Income tax

B. VAT

C. Corporate tax

D. Property tax

*Understanding the difference between direct and indirect taxes is key. An indirect tax is charged on goods or services and collected by intermediaries, like businesses, but the economic burden ultimately falls on the final consumer who pays the price including the tax. Value-added tax works this way: it is levied on the value added at each stage of production and distribution, collected by the seller from the buyer, and then remitted to the government. The consumer effectively bears the tax through the price paid, while the business just acts as the collector. Income tax, corporate tax, and property tax are direct taxes because they are paid directly by the person or entity assessed (individuals on their income, companies on their profits, owners on their property). Hence, value-added tax is the indirect tax.*

## 9. Which of the following sets comprises the enhancing qualitative characteristics?

A. Comparability, Verifiability, Timeliness.

B. Relevance, Faithful Representation.

C. Neutrality, Materiality.

D. Timeliness, Relevance.

*Enhancing qualitative characteristics are the traits that help users interpret and compare information after relevance and faithful representation have been established. The four enhancing traits are comparability, verifiability, timeliness, and understandability. The set that includes three of these genuine enhancing traits—comparability, verifiability, and timeliness—is the best choice. The other options mix in fundamental characteristics (relevance or faithful representation) or concepts that aren't enhancing traits (such as materiality, which is a constraint rather than an enhancing characteristic).*

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**10. Which formula correctly calculates the proceeds from a share issue for the statement of cash flows?**

A. ordinary shares + share premium year 2 - ordinary shares + share premium year 1

B. net proceeds from share issue

C. cash inflows from financing activities

D. par value only

*Proceeds from a share issue in the cash flow statement come from the cash received when ordinary shares are issued, and that amount is tied to the changes in the equity accounts that reflect the issue: ordinary share capital (at par) and share premium. So to get the proceeds, you look at how much these two accounts increase overall between two reporting dates. In other words, take the sum of ordinary shares and share premium at the end of the period, then subtract the sum at the beginning; this difference equals the cash received from the share issue. That's why the correct approach is the change in ordinary share capital plus share premium from year to year. The other options don't fit because they either describe the concept in vague terms (net proceeds), refer to a broader category (cash inflows from financing activities), or omit the premium component (par value only).*

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# 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!

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