DUMPSARENA

Risk Management

Cima P3

Version Demo

Total Demo Questions: 35

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Topic Break Down

Topic	No. of Questions
Topic 1, Enterprise risk management	112
Topic 2, Strategic risk	95
Topic 3, Cyber risk	38
Topic 4, Operational risk	85
Topic 5, Mix Questions	25
Total	355

QUESTION NO: 1

You are the Management Accountant for a company which supplies baked food to a string of retail outlets; biscuits cakes savoury snacks etc.

You discover that a trainee employee who is responsible for cleaning out the delivery vans has been taking damaged goods and packets which have reached their sales expiry date and has been selling them to friends. These products would otherwise have been discarded as waste.

The trainee in question is the nephew of one of the senior managers.

What is the correct course of action?

A. Have a quiet word with the trainee and ask him to stop.

B. Have a quiet word with the senior manager the trainee's relative and ask them to deal with it.

C. Document the facts and escalate to the trainee's manager.

D. Do nothing the product was designated as waste anyway.

ANSWER: C

Explanation:

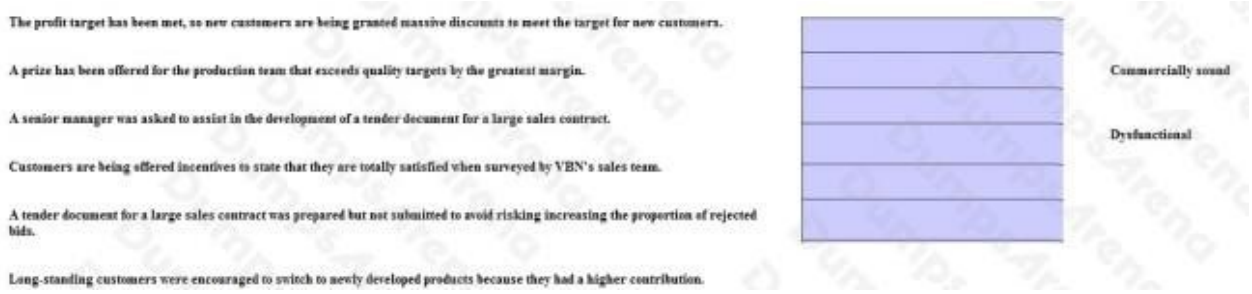
Document the facts and escalate to the trainee's manager. is the appropriate action because it ensures the matter is handled through an accountable, formal management process rather than informally or through a potentially conflicted relationship. The management accountant should make a factual, contemporaneous record of what was observed, including the nature of the goods, their expiry or damage status, relevant dates, and the apparent sale to third parties. The record should avoid unsupported accusations and be shared only with those who need it to investigate and act.

Although the goods were intended for disposal, selling expired or damaged food outside approved channels can create serious food-safety, legal, reputational, stock-control, and insurance risks. A manager with responsibility for the employee can arrange an impartial investigation, apply the organisation's disciplinary and food-disposal procedures, and determine whether further escalation is needed. The relative's senior position makes it particularly important to use normal reporting lines and preserve independence. This approach is consistent with the CIMA Code's expectation that members act with integrity, objectivity, professional behaviour, and due care when responding to suspected misconduct. See the CIMA Code of Ethics and the UK Food Standards Agency guidance on food safety management procedures.

QUESTION NO: 2 - (DRAG DROP)

B uses a balanced scorecard to monitor the performance of its divisions.

Classify each of the following decisions taken by a division's management team as either commercially sound or dysfunctional.



ANSWER:



Explanation:

A balanced scorecard is intended to promote decisions that support strategy across financial outcomes, customers, internal processes, and organisational capability, rather than encouraging managers to optimise one reported measure in isolation. The commercially sound decisions shown are consistent with that purpose. Rewarding production for delivering quality performance while also achieving the strongest margin connects operational quality with profitable delivery. This is a useful balance because quality supports reliable products and customer value, while margin ensures that performance also contributes financially.

Using a senior manager's expertise to help develop a tender for a significant contract is also commercially sound. It strengthens the quality of the sales process and improves the organisation's ability to pursue valuable business opportunities. Similarly, guiding established customers towards newly developed products with a higher contribution directs sales effort toward a more profitable product mix. Assuming the products remain suitable for the customers, this supports financial performance through better contribution while building adoption of the organisation's offerings.

The dysfunctional classifications correctly identify behaviour driven by the appearance of target achievement rather than genuine performance. Deep discounts used solely to acquire enough customers for a numerical target can erode value after the profit target is already met. Incentivising customers to give a wholly positive satisfaction response compromises the integrity of customer information, and withholding a prepared tender merely to protect a rejected-bid metric prevents a meaningful measure of sales activity and potential opportunity from being recorded. These decisions illustrate why scorecard measures must be used with commercial judgement and monitored for unintended behavioural consequences. The principles of linking performance measures to strategy and balancing financial with non-financial performance are outlined by the Balanced Scorecard Institute's overview of the balanced scorecard.

QUESTION NO: 3

M is a listed company. It is hoping to invest in a risky new venture. M has a substantial amount of cash to invest in the venture. M would have found it difficult to raise new finance as it has a high level of gearing. Which of the following statements about stakeholders' conflicting interests are true?

A. M's shareholders would only be exposed to the systematic risk from the investment in the new venture.

B. M's credit rating is likely to fall as a result of this new venture.

C. The directors would only be exposed to the systematic risk from the investment in the new venture.

D. M's diversification will mean less risk for the shareholders.

ANSWER: A B

Explanation:

"M's shareholders would only be exposed to the systematic risk from the investment in the new venture" is correct in the portfolio-theory context used for listed companies. Shareholders can hold diversified portfolios and thereby remove the venture's company-specific, or unsystematic, risk from their overall investments. Their remaining relevant exposure is systematic market risk, which cannot be eliminated through diversification. This difference in risk bearing is central to the potential conflict between diversified shareholders and directors, whose personal wealth and employment may be closely tied to the company. CIMA's risk-management material addresses the differing risk perspectives of stakeholders and the role of diversification in managing risk; see CIMA Professional Qualification resources.

"M's credit rating is likely to fall as a result of this new venture" is also correct. Credit ratings reflect both financial risk and business risk. M already has high gearing, limiting its capacity to absorb adverse outcomes. Committing cash to a risky

venture can increase the volatility and uncertainty of future operating cash flows, weakening the protection available to lenders even though no additional borrowing is raised for the investment. Rating analysis considers the interaction of leverage, cash-flow resilience, and business-risk exposure, as outlined in S&P Global Ratings' corporate methodology. A lower rating would reflect creditors' heightened concern over default and repayment risk.

QUESTION NO: 4

JKL makes large export sales to customers in country X, whose currency fluctuates significantly against JKL's home currency JKL also makes large purchases from suppliers in countrrOC All of these transactions are in country X's currency

JKL's treasurer does not actively hedge currency risks because there is a natural hedge in place due to the company making both sales and purchases in the same currency

JKL's board has instructed the treasurer to put active hedging measures in place because the risk report would otherwise have to disclose the fact that JKL has a currency risk which is not actively hedged

Which of the following statements are correct? Select ALL that apply.

A. Risk reports can change behaviour

B. Risk reporting is a bad thing

C. The board may be concerned it will be criticised if it does not hedge

D. The board does not want to be blamed for ignoring a risk.

E. Risk reporting drives the whole risk management process

ANSWER: A C D

Explanation:

Risk reports can change behaviour is correct because formal risk reporting makes exposures, control decisions and risk-treatment choices visible to the board and other stakeholders. In this case, although matching foreign-currency receipts and payments provides a natural hedge, the board's response to the prospect of reporting an unhedged exposure demonstrates that reporting requirements can influence management action. The reporting process is therefore not merely an administrative record; it supports accountability and can affect decisions about whether and how risks are treated.

The board may be concerned it will be criticised if it does not hedge and **The board does not want to be blamed for ignoring a risk.** are also correct. Directors are responsible for overseeing risk management and should be able to demonstrate that material risks have been considered and addressed in a manner consistent with the organisation's risk appetite. A disclosed decision not to apply an active hedge may attract challenge from investors or other stakeholders, even where a natural hedge reduces the net exposure. The board may consequently seek an additional active hedge to show that it has acted on the identified currency risk. This illustrates the governance, accountability and reputational dimensions of risk reporting. See the CIMA Professional Qualification and the UK Corporate Governance Code guidance.

QUESTION NO: 5

M plc is an IT company that bids for large contracts to sell computer systems and also to service existing systems. M plc's senior management has always set budgets which are hard to achieve and have made no allowances for the recession.

The economy has improved and M plc's senior managers have made the budget even more optimistic. The budgeted sales target has been increased by 40%.

In the past sales staff have not tried to achieve the budget sales because it was generally believed that the targets were impossible to reach.

M plc has recently appointed a new Sales Director who has decided that sales staff will be dismissed if they fail to meet sales targets for three successive months. He is also looking for higher sales margins than were achieved before.

What are the likely consequences of the new Sales Director's policy?

A. Sales staff will be happier in their jobs.

B. Sales staff will tender for riskier contracts.

C. Sales staff will encroach on other sales staff territories to get more work.

D. Sales staff will look for new jobs.

E. Sales staff will feel more settled and secure in their jobs.

ANSWER: B C D

Explanation:

“Sales staff will tender for riskier contracts,” “Sales staff will encroach on other sales staff territories to get more work,” and “Sales staff will look for new jobs” are likely behavioural consequences of this policy. The targets have already been regarded as unattainable, yet they have been increased substantially and linked directly to dismissal after a short period. This creates intense pressure to secure sales quickly while also meeting a higher-margin expectation. Under such pressure, individuals may pursue contracts with greater commercial, delivery, credit, or pricing risk in an attempt to produce the required results. A sales person may also compete for prospects or opportunities assigned to colleagues, particularly where territory boundaries are informal or controls are weak, damaging cooperation and creating internal conflict. The threat of dismissal also makes external job searching a rational response, especially for capable staff who consider the objectives unrealistic or the performance process punitive. These outcomes illustrate a core risk-management issue: poorly designed targets and incentives can drive conduct that is inconsistent with the organisation’s long-term risk appetite and control objectives. CIMA’s professional guidance emphasises sound decision-making, ethical conduct, and managing pressures that can influence behaviour; see the CIMA Code of Ethics and CIMA’s Global Management Accounting Principles.

QUESTION NO: 6

A junior sales clerk at BCD, a wholesale jewellers, received an email which appeared to be from a well known parcel delivery company informing her that a delivery had been attempted outside office hours and had consequently failed She was asked to click on a link and complete some seemingly innocent but logical questions to effect the delivery on the next day She thought no more about it but was very surprised the next month to be awarded salesperson of the month as her sales had doubled

Unfortunately, on investigation it was found that this was as a result of several fraudulent orders for high-value items that had seemingly been placed by an existing customer but delivered to a new address, which turned out to be a temporary box number The existing customer ' s credit card had been fraudulently charged for these orders

Which of the following types of cyber-attack had the sales clerk been a victim of?

A. Botnets

B. Malvertising

C. Trojan

D. Ransomware

E. Phishing

ANSWER: E

Explanation:

Phishing is correct because the attack began with a deceptive email impersonating a recognised parcel-delivery business. The message created a plausible, time-sensitive reason for the sales clerk to click a link and provide information: arranging redelivery after an allegedly failed delivery attempt. This is a classic social-engineering method, in which an attacker uses a trusted-looking communication and a credible business scenario to induce a recipient to disclose credentials, personal data or other information that can be exploited. The seemingly harmless questions could have captured information enabling access to customer records or ordering processes, after which the criminal placed fraudulent high-value orders and redirected delivery to a temporary address. The essential feature is not merely that an email was received, but that its sender and purpose were falsified to manipulate the recipient into acting. CIMA risk-management practice requires organisations to

recognise social-engineering exposure, train staff to verify unexpected communications independently, and implement controls around customer-data access, order amendments and delivery-address changes. The US Cybersecurity and Infrastructure Security Agency describes phishing as the use of deceptive messages to steal information or prompt harmful action: CISA phishing guidance. The UK National Cyber Security Centre also provides practical indicators and reporting guidance for suspicious emails: NCSC phishing scams guidance.

QUESTION NO: 7

Which TWO of the following are likely to be consequences of a weak control environment?

A. The Board will insist on improved controls.

B. Mid-level Managers will request improved controls

C. The Board will be free to focus on strategy.

D. Poor compliance with control procedures

E. The Board risks being poorly informed

ANSWER: D E

Explanation:

A control environment is the foundation for the entire system of internal control. It includes the organisation's standards of integrity and ethical values, governance oversight, management's commitment to competence, assignment of authority and responsibility, and accountability. When this foundation is weak, employees and managers are less likely to regard established policies and control activities as important or mandatory. Consequently, *Poor compliance with control procedures* is likely, because the expected tone, discipline and accountability for following procedures are absent or ineffective.

A weak environment also impairs the quality and openness of information flowing to those charged with governance. If reporting responsibilities are unclear, challenge is discouraged, or management can override normal processes without adequate scrutiny, significant control failures, operational problems and risks may not be reported fully or promptly. Therefore, *The Board risks being poorly informed*, limiting its ability to oversee risk, make sound decisions and take timely corrective action. This follows the COSO Internal Control—Integrated Framework, which identifies the control environment as a pervasive set of standards, processes and structures that supports effective internal control and reliable information for governance. See the COSO Internal Control guidance and CIMA's Study Hub.

QUESTION NO: 8

B plc operates a chain of restaurants. A fire at its central food-preparation facility would prevent supplies being delivered to many outlets.

Which of the following would be appropriate business continuity arrangements?

A. Maintain alternative suppliers that have been assessed in advance.

B. Maintain documented procedures for communicating with restaurant managers employees and customers.

C. Test the continuity plan through realistic exercises.

D. Wait until a fire occurs before deciding which outlets should receive available supplies.

E. Cancel insurance cover because a continuity plan reduces the likelihood of fire.

ANSWER: A B C

Explanation:

Maintaining alternative suppliers that have been assessed in advance is appropriate because it provides a practical means of obtaining essential supplies after disruption. Maintaining documented procedures for communicating with restaurant managers, employees and customers is also important because effective response depends on timely, accurate communication and clear allocation of responsibilities.

Testing the continuity plan through realistic exercises is necessary because plans that have not been tested may contain incorrect contact details, impractical recovery actions or unclear decision rights. Testing allows B plc to identify and correct these weaknesses before an actual incident. Business continuity is concerned with maintaining or restoring priority activities following disruption, rather than simply recording an event after it has occurred. See the ISO 22301 business continuity management standard and the UK government's business continuity management guidance.

QUESTION NO: 9

A project has been evaluated on the basis that it will cost $22 million and will have a net present value of $4.3 million The project has commenced and $5 million of the $22 million has been invested. A problem has been discovered that will cost an additional $4.5 million to rectify. The $4.5 million will be payable immediately. What is the NPV of continuing with this project?

A. -$5million

B. -$0.2million

C. $1million

D. $4.8million

ANSWER: D

Explanation:

$4.8million is correct because the decision to continue must be based on relevant future cash flows only. The $5 million already invested is a sunk cost: it has been incurred and cannot be recovered whether the project continues or is abandoned. It must therefore be excluded from the NPV calculated at this decision point. The original project NPV was $4.3 million after allowing for the full $22 million original project cost. To restate that value from today, add back the $5 million already spent, giving $9.3 million of value from the remaining planned cash flows. The newly identified rectification payment is an additional future cost and is payable immediately, so its present value is its full $4.5 million. Deducting this relevant incremental cost gives $9.3 million less $4.5 million, or $4.8 million. This approach applies the core capital-investment principle that decisions should reflect incremental cash flows rather than past expenditure. CIMA's investment appraisal learning materials cover the use of discounted cash flows and NPV in evaluating investment decisions; see AICPA & CIMA finance resources and the CGMA Competency Framework.

QUESTION NO: 10

The safety guard on a piece of equipment was broken. The factory manager suspended an operator who refused to operate the equipment until it was repaired. The factory manager paid another operator a bonus for operating the damaged equipment until the safety guard could be repaired.

What does this incident say about the control environment within that factory?

A. Management is not particularly concerned with managing risks.

B. Employees will perceive that management does not care about health and safety risks.

C. This factory's safety record is likely to be poor.

D. Employees are motivated to maintain productivity.

E. Management has a proportionate and considered attitude towards risk.

ANSWER: A B C

Explanation:

Management is not particularly concerned with managing risks because the manager's actions show that production has been prioritised over an identified, immediate safety hazard. A control environment is established largely through management's behaviour, decisions, incentives and response to non-compliance. Here, the manager both penalises an employee who acts prudently and rewards conduct that bypasses an essential safety control. This communicates an unacceptable risk culture rather than an effective commitment to control and safety.

Employees will perceive that management does not care about health and safety risks because employees observe the practical consequences of raising safety concerns. Suspending the employee who refuses unsafe work, while financially rewarding another for undertaking it, creates a powerful "tone from the top" that discourages challenge and reporting. The UK Health and Safety Executive identifies leadership and worker involvement as central to effective health and safety management; management conduct must make safe working a real organisational priority.

This factory's safety record is likely to be poor because a culture that tolerates operation with defective guarding increases exposure to foreseeable injury risks and reduces the likelihood that hazards will be reported or corrected promptly. Effective internal control depends on ethical values and management commitment to risk management. See the HSE guidance on leadership for health and safety and COSO guidance on internal control.

QUESTION NO: 11

GHY is a listed company. Tom is GHY's CEO and Peter is its non-executive Chair of the Board. Tom and Peter both have substantial relevant business and industrial experience and both are believed to have considerable integrity. Tom and Peter quickly developed a good working relationship after Peter's appointment. They have become close friends.

Tom briefs Peter on every aspect of the business. Tom and Peter jointly agree the agenda for every board meeting and both agree on the manner in which matters will be presented to the board.

Taking account of the principles of good corporate governance which of the following statements is correct?

A. It is entirely appropriate that Tom and Peter have this kind of relationship and both are acting in the best interests of the company.

B. Non-contentious board meetings show how well Tom and Peter are running the company and shows that the management is cohesive.

C. The relationship between Peter and Tom may have a detrimental effect on company decision making as the Board is not always being informed about matters in an unbiased manner.

D. Since the non-executive chair clearly has a significant role within this company there is little danger that any individual will become excessively dominant.

ANSWER: C

Explanation:

The relationship between Peter and Tom may have a detrimental effect on company decision making as the Board is not always being informed about matters in an unbiased manner. A close and constructive working relationship between the chair and chief executive can support effective leadership, but it must not impair the chair's independence of judgement or the board's ability to provide objective challenge. Here, Tom controls the information supplied to Peter, while both individuals jointly determine both the board agenda and the manner in which issues are presented. This creates a risk that significant matters, alternatives, risks or dissenting views are filtered before reaching the full board, preventing directors from receiving balanced information on which to base decisions.

Good governance requires the chair to lead the board, set an environment in which constructive challenge can occur, and ensure that directors receive accurate, timely and clear information. The division of responsibilities between chair and chief executive is intended specifically to avoid excessive concentration of power in one individual and to preserve independent oversight. Personal friendship does not necessarily preclude effective governance, but these arrangements create a credible threat to objective scrutiny and unbiased collective decision-making. The UK Corporate Governance Code sets out these expectations in its provisions on board leadership, division of responsibilities and information quality: Financial Reporting Council: UK Corporate Governance Code. Further guidance on the chair's role is available from the Institute of Directors governance resources.

QUESTION NO: 12

L is a specialist deep sea diving company The company specialises in challenging tasks that are often rejected by other companies as being too risky Most assignments are difficult and some are very dangerous L has very experienced divers who are highly trained and are safety conscious In spite of the dangerous work, L has an excellent success rate and is highly sought after L charges very high fees for its work Despite L's precautions, the likelihood of accidents is high and the consequences are also high L has an excellent insurance which has always been very expensive but the price has just been increased by 40%

Which of the following is correct?

A. L should cease trading

B. L should pay the very high insurance premiums demanded by its insurance company

C. L should diversify into low risk diving contract s.

D. L should stop accepting these risky contracts.

ANSWER: C

Explanation:

L should diversify into low risk diving contract s. This is the most appropriate strategic risk response because the company's existing work is inherently concentrated in a class of contracts with both high probability and high impact of accidents. Its specialist capability, strong reputation, experienced personnel and ability to command high fees mean that it has a sound commercial rationale for retaining its core high-risk work. However, adding lower-risk diving assignments would spread the company's revenue and risk exposure across a broader portfolio. This reduces dependence on work in which a single serious incident could have substantial financial, operational and reputational consequences.

Diversification is particularly relevant where a risk cannot be eliminated through further operational controls: L already employs highly trained, safety-conscious divers and takes precautions, yet the underlying likelihood and consequences remain high. A diversified contract portfolio improves resilience by producing a more stable base of income and reducing the proportion of the business exposed to the most hazardous assignments. This supports a risk appetite that recognises the attractive returns from specialist work while ensuring that the aggregate level of risk remains manageable. ISO's risk-management guidance emphasises integrating risk considerations into organisational decision-making and managing risk in a structured way; see ISO 31000 risk management. CIMA's professional qualification materials similarly place risk identification, evaluation and response within strategic decision-making: CIMA Professional Qualification.

QUESTION NO: 13

A large department store has just discovered that the staff in the store coffee shop have been defrauding the company for the past three years. The six employees who work in the coffee shop have been keeping a proportion of the cash takings, concealing the theft by not recording all sales up in the till They shared the proceeds of this fraud between them The fraud was only uncovered when one of the employees left and his replacement reported the theft to management rather than becoming involved in the crime

Which of the following best describes the role of the store ' s internal controls in the context of this fraud?

A. The store ' s board of directors should face disciplinary action for failing to prevent this fraud

B. The coffee shop should be closed down because it is impossible to control its revenues.

C. Even a well-designed system can be overridden by collusion between employees

D. This fraud indicates that there are serious shortcomings in the store ' s system of internal controls

ANSWER: C

Explanation:

“Even a well-designed system can be overridden by collusion between employees” is correct because internal control provides reasonable, rather than absolute, assurance that an organisation’s objectives will be achieved. A key inherent limitation is collusion: where several people cooperate to commit and conceal fraud, they can defeat controls that depend on one employee checking another’s work. In this case, all six coffee-shop staff participated in withholding cash sales from the till records and shared the proceeds. Their coordinated behaviour enabled the theft to remain hidden for an extended period, despite the normal expectation that cash receipts should be recorded and reconciled. The eventual detection arose not from a control operating within the colluding group, but because a new employee did not join the arrangement and reported it. This illustrates why management must recognise residual fraud risk even when controls are appropriately designed, and should use layers of independent oversight, such as supervisory review, cash reconciliations, data analysis, and whistleblowing arrangements. The COSO Internal Control framework expressly recognises limitations arising from human judgment, management override, and collusion; see COSO’s Internal Control guidance. CIMA’s Risk Management syllabus also treats internal control as part of managing risk rather than as a guarantee that fraud cannot occur; see CIMA Professional Qualification resources.

QUESTION NO: 14

M, a manufacturing company, has had some problems with defects in one of the main productsÂ itÂ produces. This product has been made by the company for many years and is very profitable. Last monthÂ itÂ had over 300 defects reported by customers which is more than 15% of products sold. This is a reputation risk for M and is also affecting profitability.

Which of the following controls could M introduce to reduce defects and also increase profitability?

A. M could increase the number of quality control staff.

B. M could introduce a procedure where quality control staff sign a form at the end of each dayÂ to say they have examined 1 in 10 products for defects and they are satisfied with the quality.

C. The production director could examine one in every 10 products and sign a form to say they are satisfactory.

D. M could service machinery at least once a month as recommended by the machinery supplier.

E. M could check all employees qualifications to ensure they are qualified for their jobs.

ANSWER: D

Explanation:

“M could service machinery at least once a month as recommended by the machinery supplier.” is the most suitable control because it is a preventive control aimed at addressing a likely underlying cause of recurring production defects. Where a long-established production process suddenly generates a material level of customer-reported defects, machinery condition, calibration, wear, and reliability are important operational-risk considerations. Following the supplier’s maintenance schedule helps ensure that equipment continues to operate within its required tolerances and that developing faults can be identified before they affect a large volume of output.

This control supports profitability as well as quality. Reliable, properly maintained machinery can reduce scrap, rework, production interruptions, warranty or replacement costs, and the administrative cost of resolving customer complaints. It can also help preserve customer confidence and future sales by reducing the incidence of defective goods reaching customers. The control therefore directly treats the risk at its source rather than relying primarily on detecting defects after production. Preventive maintenance is consistent with the principle that effective risk management should identify, assess, and respond to operational risks in a way that protects and creates organisational value. Further guidance on maintenance management is available from ISO 55001 asset management, and CIMA’s risk-management context is outlined at CIMA Professional Qualification.

QUESTION NO: 15

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M plc has a $2 million loan outstanding on which the interest rate is reset every 6 months for the following 6 months and the interest is payable at the end of that 6-month period. The next 6-monthly reset period starts in 3 months and the treasurer of M plc thinks that interest rates are likely to rise between now and then.

Current 6-month rates are 7.2% and the treasurer can get a rate of 7.7% for a 6-month forward rate agreement (FRA) starting in 3 months' time. By transacting an FRA the treasurer can lock in a rate today of 7.7%.

If interest rates are 8.5% in 3 months' time what will the net amount payable be?

Give your answer to the nearest thousand dollars.

A. $77000

ANSWER: A

Explanation:

$77000 is correct. The FRA fixes M plc's effective borrowing rate for the six-month interest period beginning in three months at 7.7%, despite the actual reset rate rising to 8.5%. Interest charged on the $2 million loan at the actual annual rate of 8.5% is $85,000: $2,000,000 × 8.5% × 6/12. Because the market rate exceeds the agreed FRA rate by 0.8%, the FRA provides compensation equivalent to $8,000: $2,000,000 × (8.5% − 7.7%) × 6/12. This offsets the additional interest caused by the rate rise. Consequently, the net six-month interest cost is $85,000 less $8,000, or $77,000. Equivalently, the hedge produces the intended fixed cost directly: $2,000,000 × 7.7% × 6/12 = $77,000. In practice, an FRA's compensation is normally settled at the start of its reference interest period and discounted to reflect that early payment; however, when expressing the net cost over the full interest period, its value is $8,000 and the effective payable amount remains $77,000. See the CME Group overview of forward rate agreements and the ICE Benchmark Administration information on IBOR benchmarks.

QUESTION NO: 16

CH makes a popular type of chocolate bar The bars are made on a production line and are scanned for size and shape as they move along the line Wrong sized and misshapen bars are rejected as being poor quality. The scanner detects 90% of poor quality bars. If CH wants to reduce the risk of poor quality bars being sold to the public it can add a further check by a person scanning the production line as well. this check would detect 80% of poor quality bars

If the further check was implemented what percentage of poor quality bars would still get through the checking process?

A. 7.2%

B. 10%

C. 30%

D. 2%

ANSWER: D

Explanation:

2% is correct because the two checks operate as layered controls. Start with 100 poor-quality bars. The automated scanner detects 90%, so 10 poor-quality bars are not identified by that first check and proceed further along the process. The additional human check detects 80% of the poor-quality bars presented to it. Therefore, it identifies 80% of those 10 remaining bars, or 8 bars. This leaves 2 bars undetected and able to pass through both checks. Consequently, 2 out of the original 100 poor-quality bars get through, which is 2%.

This calculation applies the residual-risk principle: a second control reduces the risk remaining after the first control rather than simply adding its detection rate to the first rate. Equivalently, the first control has a 10% failure rate and the second has a 20% failure rate; assuming the stated detection rates apply independently to bars that reach each check, the combined failure rate is 10% × 20% = 2%. This illustrates how multiple controls can reduce exposure to a quality risk within a production process, consistent with CIMA's risk-management focus on evaluating and responding to risk. See the CIMA Professional Qualification syllabus and the ISO 31000 risk-management overview.

QUESTION NO: 17

DBB is a mining company. The company's business requires manners to work underground in hazardous conditions DBB takes every possible precaution to protect the safety and wellbeing of its miners, but that does not prevent the occurrence of four or five serious injuries every year. That number is small in relation to the many thousands of owners employed by DBB.

DBB's Board is preparing a risk map Most directors believe that injuries to miners should be classified as high Likelihood and high impact, which Is a category of risk that should be avoided according to the TARA framework One of the directors has suggested that the risk should be classified as low likelihood and high impact because that would move the risk into the quadrant associated with transference or sharing and so could be draft with by, say, insurance

Which TWO of the following are correct?

A. it is unlikely that DBB will be able to transfer the risk of these injuries by insurance.

B. The fact that there are very few accidents supports the argument that the likelihood is low.

C. The director's recommendation that the risk should be reclassified will make the risk map more useful

D. Risk maps enable companies to identify the correct migration for any given risk

E. Discussing likelihood and impact will help DBB's Board to mitigate the risk of industrial inquiry

ANSWER: A B

Explanation:

“It is unlikely that DBB will be able to transfer the risk of these injuries by insurance” is correct because insurance does not remove the underlying operational hazard or prevent a miner from being injured. It can transfer or share specified financial consequences, such as compensation claims, legal costs and some business-interruption losses, but DBB remains responsible for controlling underground safety risks. In a high-hazard activity, the organisation must continue to eliminate hazards where practicable and reduce residual risks through safety controls, supervision, training and effective incident management. This is consistent with the risk-treatment principle that risk sharing does not itself reduce the likelihood of the event occurring.

“The fact that there are very few accidents supports the argument that the likelihood is low” is also correct when the number of serious injuries is considered against DBB’s very large mining workforce. Likelihood concerns the expected frequency or probability of the event in the defined population and time period. Four or five serious injuries annually may have an extremely serious consequence for each affected individual, while still representing a relatively infrequent event across many thousands of employees. A risk map should therefore distinguish this low likelihood from the high human impact, while ensuring that the classification does not weaken DBB’s duty to manage safety actively. See the ISO 31000 risk-treatment guidance and the UK HSE’s risk assessment guidance.

QUESTION NO: 18

P plc expects to receive EUR 4 million from a customer in three months' time.

P plc's functional currency is GBP and it is concerned that the euro may weaken against sterling before receipt.

Which of the following is the most appropriate action if P plc wishes to eliminate the transaction exposure using a forward contract?

A. Sell EUR forward and buy GBP forward.

B. Buy EUR forward and sell GBP forward.

C. Borrow GBP now and repay the borrowing from the euro receipt without converting the euros.

D. Take no action because a foreign-currency receipt cannot create exchange risk.

ANSWER: A

Explanation:

P plc should enter into a contract to sell euros forward and buy pounds sterling forward. The company will receive euros in three months and therefore faces the risk that those euros will convert into fewer pounds if the euro weakens. Selling the expected euro receipt forward locks in the sterling value at the agreed forward exchange rate.

The forward contract is a hedging transaction because it offsets the underlying foreign-currency receivable. Buying euros forward would increase rather than offset P plc's euro exposure. Forward contracts are commonly used to manage known transaction exposures because they fix the exchange rate for a specified future date. See ACCA foreign-exchange risk guidance.

QUESTION NO: 19

B is a family run security company with a number of prestigious clients who rely on it to maintain online access to their CCTV and alarm systems and respond to any detected intrusions or malfunctions.

It designs and installs security systems for a number of UHNW (Ultra High Net Worth) individuals who may have several seasonal and city residences largely unoccupied for many months of the year.

B's reputation as 100% secure is crucial to its on-going success in this very specialised marketplace.

Select THREE factors which should be given prominence in B's fraud risk management strategy.

A. B should carry out background security health and financial checks on all employees their immediate family members and associates on an annual basis.

B. B should ask new employees to fill in a declaration that they are honest and have no criminal convictions for dishonesty. That can be filed as evidence that the company took this precaution.

C. B should inform clients that they have a stringent anti-fraud policy.

D. B should have an active whistle-blower policy whereby all staff are encouraged by positive reward to report any suspicions they may have about other employees.

E. B should ensure that employees who design or install security systems are not involved with the operation of those systems once implemented.

F. B Should revise and publish their fraud policy document to employees every three months highlighting any new elements and industry developments.

ANSWER: A D E

Explanation:

“B should carry out background security health and financial checks on all employees their immediate family members and associates on an annual basis” is appropriate because this business gives personnel privileged knowledge of clients’ security arrangements, occupancy patterns and potentially remote-system access. In such a high-trust setting, robust ongoing vetting helps identify changes in circumstances that could create an insider-fraud or coercion risk. The Security Industry Authority recognises the importance of screening people working in security-sensitive roles.

“B should have an active whistle-blower policy whereby all staff are encouraged by positive reward to report any suspicions they may have about other employees” gives the organisation an early-warning channel for suspected misconduct. A confidential, trusted speak-up process supports prompt investigation before a security weakness or fraudulent activity harms a client.

“B should ensure that employees who design or install security systems are not involved with the operation of those systems once implemented” establishes segregation of duties. Separating the creation of security configurations from subsequent operational access reduces the opportunity for one individual to conceal unauthorised access, alter controls, or exploit detailed system knowledge without independent oversight. These measures address the particularly serious insider-risk exposure inherent in protecting high-value, often vacant properties. See the Security Industry Authority and the UK Government’s whistleblowing guidance.

QUESTION NO: 20

X Company M has lost 25% of its revenue in the last three months due to bad debts. One of the receivables written off was from a long standing customer and the other three were from new customers. The management accountant has warned the sales team that the company cannot survive any more substantial bad debts.

Which of the following internal controls should be put in place to try and prevent further bad debts?

A. A credit check should be carried out on each new customer.

B. Credit limits should be set for all customers. However, if the credit limit will cost a sale then sales staff can override this limit.

C. Two sales staff must authorise new customers and sign a form stating that they have done so.

D. An aged analysis of customer balances must be reviewed every month.

E. As soon as a customer payment is overdue they should not be allowed to purchase more until their balance has been reduced.

ANSWER: A D E

Explanation:

A credit check should be carried out on each new customer is an appropriate preventive control because it establishes whether a prospective customer has sufficient financial standing and an acceptable payment history before the company accepts credit risk. This is especially important where recent bad debts have arisen from new customers. Credit approval should be based on independent information and documented criteria rather than sales pressure.

An aged analysis of customer balances must be reviewed every month provides a continuing monitoring control over the receivables ledger. It identifies balances that are becoming overdue, enabling prompt collection action, escalation and reassessment of the customer's credit status before amounts become irrecoverable. Reviewing ageing also helps management identify deteriorating payment patterns in established customers, since a long-standing relationship does not eliminate credit risk.

As soon as a customer payment is overdue they should not be allowed to purchase more until their balance has been reduced limits the company's further exposure once a warning sign has occurred. Suspending additional credit until overdue debt is addressed helps contain potential losses and makes adherence to agreed payment terms meaningful. Together, these controls cover initial credit assessment, ongoing monitoring and timely restriction of further credit. They reflect the need for control activities that manage risks to objectives, as described in the COSO Internal Control guidance, and are consistent with receivables-management practices outlined by ACCA's working-capital management guidance.

QUESTION NO: 21

MNO is a hotel chain which consists of many small local hotels spread throughout Sealand and often used by business customers It has decided to undertake scenario planning to see how it might be affected by changes in the future.

Which TWO of the following scenarios would be helpful in strategic scenario planning for MNO?

A. The increase in the use of search apps to book hotel rooms

B. An increase in interest rates

C. Climate change

D. The growth in internet services that facilitate short-term room lets by private landlords.

E. A change in local business rates for private property.

ANSWER: A D

Explanation:

"The increase in the use of search apps to book hotel rooms" is a useful strategic scenario because it represents a potentially material shift in how customers discover, compare and choose accommodation. For a dispersed chain of small

hotels, greater dependence on app-based search and booking can reshape customer access, price transparency, distribution costs, brand visibility and the importance of online reviews. It is therefore a relevant external uncertainty with the potential to change the competitive environment and MNO's strategic choices.

"The growth in internet services that facilitate short-term room lets by private landlords." is also a useful scenario because platform-enabled short-term lets can significantly alter the supply of accommodation available to business travellers. This development may affect local room availability, pricing, customer expectations and the degree of competition faced by individual MNO hotels. Its future scale and local impact are uncertain, while its consequences could be substantial, making it well suited to scenario planning. CIMA's risk-management learning area expects organisations to assess external developments and their implications for strategy, rather than merely forecast a single outcome. See the CIMA Professional Qualification syllabus and the AICPA & CIMA risk-management resources.

QUESTION NO: 22

The managers of a company are agents for the shareholders tasked with increasing shareholders' wealth. Which of the following will usually increase shareholders' wealth?

A. Investing in projects with the shortest payback period.

B. Investing in projects with positive net present value.

C. Investing in projects with the greatest level of risk.

D. Not paying a dividend for several years in order to invest in new projects.

ANSWER: B

Explanation:

Investing in projects with positive net present value is the appropriate decision because net present value directly measures the increase in shareholders' wealth expected from an investment. It calculates the present value of the project's forecast cash inflows, discounted at a rate that reflects the required return and relevant risk, less the initial investment and other cash outflows. A positive result means that the project is expected to generate cash returns whose value today exceeds the resources committed to it. Accepting such projects should therefore add value to the company and, consequently, to its shareholders.

This conclusion is consistent with the shareholder-wealth-maximisation objective: managers should allocate capital to opportunities expected to earn more than the investors' required rate of return. Net present value also accounts for the timing of cash flows through discounting, which is essential because cash received earlier is generally worth more than the same nominal amount received later. The CIMA syllabus identifies investment appraisal, including net present value, as a core technique for evaluating investments and making value-based decisions. See the CIMA Professional Qualification blueprints and the CFA Institute's capital-budgeting overview.

QUESTION NO: 23

DFR is an online retailer that sells picture frames The software running on DFR ' s website enables customers to log in and make purchases by inputting an email address as a user name and a password that must contain at least eight characters, including upper and lower case letters, numbers and punctuation marks (e.g. £, $ or!) Once logged in, customers can check previous orders that they have placed.

Customers can also use DFR ' s website to change personal details, including credit card numbers and delivery addresses Whenever they wish to use those facilities, the software sends a text message containing a six-digit number to their mobile phones They must input that number before the system will accept changes to their personal details

Which TWO of the following statements are correct?

A. It is illogical to have different security measures in place for orders and for access to personal details.

B. The software treats customers ' personal details as being more sensitive than their ordering histories

C. The arrangement with the text message will have no effect on the security associated with changing personal details

D. Customers should be able to update the mobile phone numbers in their DFR accounts using only their email addresses and passwords for access

E. The software should never show the whole of a customer ' s credit card number on screen, even if the customer has logged in and input the six-digit number.

ANSWER: B E

Explanation:

The software treats customers ' personal details as being more sensitive than their ordering histories because it applies an additional verification step before changes can be made to information such as delivery addresses and credit-card details. Requiring the customer to enter a one-time six-digit number sent to a registered mobile phone is an example of step-up authentication: access initially depends on knowledge of the password, while changing higher-risk data also requires possession of the phone. This is a proportionate, risk-based control because unauthorised amendment of account or payment-related information can lead to fraud, account takeover, or misdirected goods. NIST describes the use of out-of-band authenticators as a method of verifier-controlled authentication, while also noting that organisations should manage the associated risks appropriately: NIST SP 800-63B.

The software should never show the whole of a customer ' s credit card number on screen, even if the customer has logged in and input the six-digit number. Strong authentication authorises an action but does not remove the need to minimise exposure of cardholder data. PCI DSS requires a primary account number to be masked when displayed, normally showing no more than the first six and last four digits. Masking reduces the chance that payment-card data will be captured through shoulder surfing, screenshots, compromised sessions, or inappropriate access. See the PCI Security Standards Council document library.

QUESTION NO: 24 - (SIMULATION)

VBN uses a balanced scorecard to monitor the performance of its divisions.

Classify each of the following decisions taken by a division's management team as either commercially sound or dysfunctional.



ANSWER: See the explanation for the answer

Explanation:

Classifications (in the order shown):

The dysfunctional decisions manipulate or optimise an individual scorecard measure rather than improving genuine, sustainable business performance. The commercially sound decisions support profitable sales, product development and the pursuit of valuable business opportunities.

QUESTION NO: 25

NLC a retail chain is considering moving its information systems which support its point of sale infrastructure into the cloud.

Which TWO factors should it consider in choosing its supplier?

A. Cheapest option offered

B. Certified security

C. Proximity of facilities to head office

D. Robust service level agreement

ANSWER: B D

Explanation:

Certified security is essential because point-of-sale systems process commercially sensitive transaction data and may handle payment-card data. NLC needs evidence that the prospective cloud provider operates effective, independently assessed information-security controls and can meet applicable security, privacy, and payment-industry obligations. Relevant assurance can include recognised certifications and audit reports, but NLC should also establish how the provider's controls, identity management, encryption, monitoring, incident response, and responsibilities will support its own risk-management requirements. Cloud security is a shared responsibility: the supplier's certification provides assurance over its environment, while NLC remains accountable for configuring and operating its use of the service securely. The UK National Cyber Security Centre explains this shared model in its Cloud Security Principles.

A **robust service level agreement** is equally important because point-of-sale availability directly affects the retailer's ability to trade. The agreement should define measurable availability and performance targets, support and incident-response arrangements, backup and recovery commitments, maintenance notifications, reporting, escalation, remedies for material service failure, and exit or data-portability provisions. These commitments make operational risk explicit and enable NLC to monitor whether the provider delivers the required service. The NIST guidance on cloud computing highlights the importance of clearly defined service capabilities and responsibilities: NIST SP 800-145.

QUESTION NO: 26

RFG is considering a major expansion that will result in a more diversified business model.

At present RFG's market capitalisation is $240 million. This is based on a beta of 1.6. The risk free rate is 4% and the market rate of return is 9%. RFG is financed entirely by equity. The company generates an annual cash surplus of $28.8 million.

The expansion will cost $50 million and will generate future cash flows of $12 million in perpetuity. This new business will reduce RFG's beta to 1.4.

Calculate the adjusted present value of the expansion.

A. $81 million

B. $131 million

C. $321 million

D. $59 million

ANSWER: A

Explanation:

The adjusted present value is **$81 million**. The expansion changes the risk of the whole company, so the relevant valuation recognises the revised beta for both the existing business and the proposed new perpetuity. Using the capital asset pricing model, the revised required return on equity is 11%: 4% plus 1.4 multiplied by the market risk premium of 5% (9% less 4%). CAPM links the required return to systematic risk, represented by beta; this relationship is summarised by the CFA Institute's CAPM refresher.

At 11%, the present value of RFG's existing annual $28.8 million perpetuity is $261.8 million. The new annual $12 million perpetuity is worth $109.1 million. Therefore, the combined post-expansion value is approximately $370.9 million. The adjusted value created by the proposal is this combined value less the current standalone market capitalisation of $240 million and less the $50 million investment outlay: $370.9 million − $240 million − $50 million = $80.9 million, rounded to $81 million. This approach appropriately captures the value effect of diversification through the lower company beta, consistent with risk and valuation coverage in the CGMA Professional Qualification.

QUESTION NO: 27

You are the Management Accountant for P a food manufacturing company with an annual sales revenue of $5 million.

You discover that the Production Manager's records are inconsistent. Raw materials purchased do not agree to the total recorded for transfers to production plus wastage. There is an average shortfall of 2% of purchases.

You investigated and discovered that there are often mistakes made during manufacturing that results in food that is safe to eat but cannot be sold because of visual flaws. The Production Manager is supposed to scrap all such damaged product and write all such losses off as waste but you discovered that he has been giving the damaged food to a charity that assists homeless people. No records are made of such gifts in order to conceal the losses due to manufacturing errors.

What should you do?

A. Do nothing this is a good cause and the amount is insignificant.

B. Instigate disciplinary action this is both theft and poor management.

C. Instigate a confidential but documented review with the Production Manager and tell him to stop.

D. Instigate a review of the production process to potentially reduce the amount of wastage.

E. Instigate a process whereby edible but unsellable items can be given to the charity officially.

ANSWER: C D E

Explanation:

Instigating a confidential but documented review with the Production Manager and requiring the practice to stop is appropriate because the unrecorded diversion of inventory has caused inaccurate production and waste records. A documented discussion establishes the facts, protects confidentiality, and ensures that the matter is addressed through the organisation’s proper management and control processes. It also supports the management accountant’s duties of integrity, objectivity and professional behaviour under the CIMA ethical framework. The relevant conduct requirements are set out in the AICPA & CIMA Code of Professional Conduct.

Instigating a review of the production process to potentially reduce the amount of wastage is also necessary. The underlying manufacturing errors are a recurring operational issue, so management needs reliable measurement of the losses and a structured process-improvement response. This will improve control over raw-material usage, inventory reconciliation and product quality.

Instigating an official process through which edible but unsellable items can be given to the charity is equally appropriate. A formal, authorised donation process can preserve the social benefit while ensuring food-safety checks, appropriate approval, inventory records, valuation and transparent reporting. Food donation is a recognised way to redirect safe surplus food when managed responsibly; see the FAO guidance on food donation.

QUESTION NO: 28

FILL BLANK

D has decided to invest in a new factory at a cost of $6,000,000. The discount rate of the project is 22% and the PV of tax shield is $80,000.

What is the IRR?

Give your answer to two decimal places.

A. 21.71%

B. Insufficient information to calculate the IRR.

ANSWER: B

Explanation:

Insufficient information to calculate the IRR is the correct response. IRR is the discount rate that makes the net present value of a project's complete incremental cash-flow stream equal to zero. To calculate it, the initial investment must be matched with the amounts and timing of all future operating cash flows, including the timing and nature of any tax effects. Here, the initial cost, a stated discount rate and the aggregate present value of a tax shield are provided, but the annual or periodic project cash flows are not. Nor is the timing profile of the tax shield given. A present value of $80,000 can arise from many different sequences of tax savings, each producing a different IRR. The stated 22% rate may be a required return used for NPV or APV evaluation, but it does not itself establish the project's internal return. Consequently, no numerical IRR, including one rounded to two decimal places, can be derived from the facts supplied. This is consistent with the CIMA P3 focus on evaluating investment proposals using appropriate discounted-cash-flow information; see the CGMA Professional Qualification resources. For the formal definition and calculation of IRR, see Investopedia's IRR reference.

QUESTION NO: 29

Which of the following statements best explains why a corporate treasury department should be established as a cost centre rather than a profit centre?

A. The Treasury Department should not be encouraged to speculate.

B. The Treasurer should not have a great deal of responsibility.

C. There is no way for the Treasury Department to generate revenue.

D. The Treasurer has the ability to manipulate the Department's reported profit.

ANSWER: A

Explanation:

The Treasury Department should not be encouraged to speculate. Corporate treasury's primary purpose is to safeguard the organisation's financial position: maintaining adequate liquidity, arranging funding, managing cash efficiently, and identifying and mitigating financial risks such as interest-rate, foreign-exchange and counterparty exposures. These activities protect value and support the organisation's strategic and operating objectives; they are not intended to create trading income. Treating treasury as a profit centre and evaluating it principally against a profit target could create incentives to take open or excessive market positions in pursuit of short-term gains. That would blur the boundary between hedging genuine business exposures and speculation, potentially exposing the business to losses that are unrelated to its core operations. A cost-centre framework instead supports performance measures based on the quality, efficiency and control of treasury services, such as liquidity availability, funding costs relative to appropriate benchmarks, policy compliance and effectiveness of approved hedging. This aligns accountability with treasury's risk-management mandate and reinforces the need for clear dealing limits, segregation of duties and governance. The Association of Corporate Treasurers describes treasury as managing liquidity, financial risk and funding, while its guidance on financial-risk management emphasises disciplined control rather than speculative activity: ACT: What is treasury? and ACT: Financial risk management.

QUESTION NO: 30 - (SIMULATION)

R plc is considering an investment of $1,100,000 in a new machine which is expected to have substantial cash inflows over the next five years.

The annual cash flows from this investment and their probability are shown below:

Annual cash flow ($)	Probability
200,000	0.4
280,000	0.5
350,000	0.1

At the end of its five-year life, the asset is expected to sell for $100,000. The cost of capital is 5%.

What is the Expected Net Present Value?

Give your answer to the nearest whole $.

ANSWER: See the explanation for the answer

Explanation:

Expected NPV = $82,369 (nearest whole dollar).

First calculate the expected annual cash flow:

```
($200,000 × 0.4) + ($280,000 × 0.5) + ($350,000 × 0.1)
= $80,000 + $140,000 + $35,000
= $255,000
```

Discount the expected annual cash flow for five years at 5%, using the 5-year annuity factor of 4.32948:

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PV of annual cash flows = $255,000 × 4.32948 = $1,104,017
```

Discount the $100,000 disposal proceeds received at the end of year 5:

```
PV of disposal proceeds = $100,000 × 0.78353 = $78,353
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Therefore:

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Expected NPV = $1,104,017 + $78,353 – $1,100,000
             = $82,369
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QUESTION NO: 31

You are the management accountant for YY a food manufacturing company with an annual sales revenue of $6 million

You discover that the production manager's records are inconsistent Raw materials purchased do not agree with the total recorded for transfers to production plus wastage There is an average shortfall of 2% of purchases

You have investigated and discovered that there are often errors made during manufacturing that results in food that is safe to eat but. because of visual flaws, cannot be sold

The production manager is supposed to scrap all such damaged products and write all such losses off as waste You have discovered however that he has been giving the damaged food to a charity that assists homeless people No records are made of such gifts in order to conceal the losses due to manufacturing errors

Which of the following actions should you take? Select ALL that apply

A. Instigate disciplinary action this is both theft and poor management

B. Do nothing; this is a good cause and the amount is insignificant

C. Instigate a review of the production process to potentially reduce the amount of wastage.

D. Instigate a confidential but documented review with the production manager and tell him to stop

E. Instigate a process whereby edible but unsellable items can be given to the charity officially

ANSWER: A C E

Explanation:

“Instigate disciplinary action this is both theft and poor management”, “Instigate a review of the production process to potentially reduce the amount of wastage.”, and “Instigate a process whereby edible but unsellable items can be given to the charity officially” are appropriate actions. The production manager has deliberately bypassed the organisation’s required controls, disposed of company goods without authority, and concealed both the disposal and the underlying manufacturing losses. This is a serious control and conduct issue, irrespective of the charitable destination or the apparent size of the discrepancy. Formal disciplinary action enables the organisation to investigate the facts, apply its policies consistently, establish accountability, and address the intentional falsification or omission of records.

A production-process review is also necessary because the root operational issue is recurring manufacturing error. Identifying causes and improving process controls can reduce avoidable waste, improve yield, and make inventory records more reliable. Finally, where food is safe, legally suitable for donation, and the company wishes to support the charity, an authorised donation process should be established. That process should include approval, valuation and inventory recording, food-safety controls, and an audit trail. These steps uphold the integrity, transparency, and professional behaviour expected under the AICPA & CIMA ethics resources and support effective internal control principles described by COSO.

QUESTION NO: 32

K plc is a large listed company in the retail industry. It has recently appointed T as a non-executive director. T has never had any previous involvement with K plc but is well known to K's Chief Executive P because T is the Managing Director of K plc's largest supplier.

K has recently expanded into Asia. Doubts about the wisdom of the move have been expressed in the financial press with some journalists commenting that it has exposed K plc to higher degrees of risk than previously. The move had been approved by the Risk Committee which consists of four Non-Executive Directors (NEDs) all of whom have significant experience in business.

K plc does not have a Nominations Committee. Nominations to the Board are usually proposed by P and generally agreed by the other directors.

In relation to the above scenario which of the following comments is valid?

A. K plc is in line with best practice as it only has NEDs on its Risk Committee.

B. There is no possible conflict of interest in relation to T's position as a NED and as Managing Director of a supplier company since in both roles he would clearly want K plc to prosper.

C. The Risk Committee should have rejected the proposal to enter the Asian market merely because it exposed K to greater risk than the other markets in which it operates.

D. The absence of a Nominations Committee exposes K plc to the risk that the Chief Executive may have unfettered power.

ANSWER: D

Explanation:

The absence of a Nominations Committee exposes K plc to the risk that the Chief Executive may have unfettered power. A properly constituted nomination committee is a key board-governance mechanism: it leads the process for board appointments, evaluates the balance of skills and experience on the board, considers succession planning, and makes recommendations to the board. Its use helps ensure that director appointments are objective, transparent and based on the needs of the company rather than on the preferences of an individual executive.

Here, the Chief Executive usually proposes nominees and the other directors generally agree. Without an independent committee undertaking a formal assessment and challenge of those proposals, the Chief Executive can exert excessive influence over board composition. This creates the governance risk of appointments being made from personal or commercial connections, weakening independence and the board's ability to oversee executive management effectively. The concern is particularly significant for a listed company, where robust independent oversight and orderly succession are expected. The UK Corporate Governance Code states that boards should establish a nomination committee, with a majority of independent non-executive directors, to lead appointments and succession planning. See the Financial Reporting Council's UK Corporate Governance Code and the FRC corporate governance resources.

QUESTION NO: 33

AZX sells electrical components.

AZX ' s annual turnover is S24 million. Half of all sales are on 30 days ' (1 month) credit

5% of credit sales have to be written off as unrecovered debt

25% of such write off is subsequently recovered through debt collection and legal action.

What is the expected loss each year due to credit risk?

A. $900,000

B. $600,000

C. $1,200,000

D. $450,000

ANSWER: D

Explanation:

$450,000 is the expected annual loss from credit risk. Only half of annual turnover is sold on credit, so the relevant credit-sales exposure is $12 million ($24 million × 50%). The stated write-off rate is then applied to this credit-sales amount: $12 million × 5% produces gross bad debts of $600,000. However, AZX subsequently recovers 25% of amounts written off through debt collection and legal action. The expected recovery is therefore $150,000 ($600,000 × 25%). Deducting this recovery from gross write-offs gives the net loss: $600,000 − $150,000 = $450,000. Equivalently, because AZX ultimately does not recover 75% of written-off debts, the calculation can be expressed directly as $24 million × 50% × 5% × 75% = $450,000. This approach reflects credit risk as the potential financial loss arising when customers do not meet their payment obligations, while recognising recoveries that reduce the final loss. CIMA's Risk Management syllabus addresses identifying, assessing and managing financial risks, including credit-related exposures; see CIMA Professional Qualification. The treatment of expected credit losses is also consistent with the general impairment framework described by IFRS 9 Financial Instruments.

QUESTION NO: 34

XYZ is a large supermarket chain which has engaged in online shopping and home delivenes It has a 24/7 service which runs on a central server allowing its customers to input orders at any time

XYZ runs a card loyalty scheme which is hosted on the central server All transactions, whether shop based or on-line, create an update on the central database on the central server

Which THREE of the following types of Personally Identifiable Information (PII) will XYZ have to hold for its customers?

A. Name

B. Credit card details

C. Date of Birth

D. XYZ Customer identification

E. Address

ANSWER: A B E

Explanation:

Name, **Credit card details**, and **Address** are the customer information needed to support the described online grocery and home-delivery operation. A name enables XYZ to associate an order and its related account activity with the appropriate customer. A delivery address is necessary to fulfil the home-delivery service, including routing an order to the correct destination. Credit-card details are personal financial information supplied to authorise and process payment for online purchases; where payment-card data is processed or retained, it must be protected under appropriate controls. The Information Commissioner's Office explains that personal data includes information relating to an identifiable person and can include identifiers and financial information. See the ICO guidance on personal data. In practice, XYZ should apply data-minimisation principles, retain only the payment data necessary for its business and legal purposes, and use secure payment arrangements. Payment-card handling should also follow the PCI DSS standard, including limiting storage of cardholder data and safeguarding it when it is processed.

QUESTION NO: 35 - (DRAG DROP)

Select the correct ethical principle that corresponds to each ethical dilemma described.



ANSWER:



Explanation:

The correct matching applies the fundamental ethical principles to the specific professional threats created by each situation. **Integrity** governs the requirement to be straightforward and honest in all professional and business relationships. It therefore applies where the consultancy fee is deliberately inflated and the resulting excess is to be shared, because the professional's conduct must remain honest rather than participating in a misleading financial arrangement.

Objectivity requires professional judgement not to be compromised by bias, conflicts of interest, or undue influence. A director considering work connected to a business where a close professional associate has a directorship must preserve independent judgement and manage the relationship appropriately. This is why the scenario is correctly connected to Objectivity.

Professional competence means maintaining appropriate knowledge and skill, and acting diligently in providing a professional service. When considering a significant balanced-scorecard assignment, the decision must be based on whether the necessary capability, resources, expertise, and care can be brought to the work, regardless of the size of the fee. The principle therefore correctly frames that engagement decision.

Confidentiality requires information acquired through professional work not to be disclosed or used for personal advantage without proper authority, unless there is a legal or professional duty to do so. Knowledge of a client's prospective expansion could affect the value of shares, so using that information to decide whether to purchase shares would misuse confidential information. CIMA's ethical requirements reflect the International Ethics Standards Board for Accountants' International Code of Ethics; see the IESBA Code of Ethics and CIMA's Code of Ethics resources.