

DUMPS ARENA

Risk Management

Cima P3

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QUESTION NO: 1

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**QUESTION NO: 2**

H has a floating rate loan that it wishes to replace with a fixed rate. The cost of the existing loan is LIBOR + 4%. H would have to pay a fixed rate of 8% on a fixed rate loan. H's bank has found a potential counterparty for a swap arrangement.

The counterparty wishes to raise a variable rate loan. It would pay LIBOR + 1% on a variable rate loan and 9% on a fixed rate.

The bank will require 10% of the savings from the swap and H and the counterparty will share the remaining saving equally.

Calculate H's effective rate of interest from this swap arrangement.

- A. H would pay 6.2%
- B. H would pay 6%
- C. H would pay Libor + 1%
- D. H would pay 6.4%

ANSWER: A**QUESTION NO: 3**

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

QUESTION NO: 4

Kate is a management accountant. Her immediate superior plans to apply for a promotion and his strongest competitor is the sales manager. Kate's superior has ordered her to set unattainable sales targets in a sales budget in order to reduce the sales manager's promotion prospects. He told her not to tell anybody.

Kate asked the finance director for advice. He told her that he wanted her immediate superior to get the promotion and so she should set the unattainable budget as instructed.

Kate set the budget as instructed.

Which THREE fundamental ethical principles has Kate breached?

- A.** Integrity
- B.** Objectivity
- C.** Professional competence and due care
- D.** Confidentiality
- E.** Professional behaviour

ANSWER: A B E

QUESTION NO: 5 - (DRAG DROP)

Identify from the list provided which category of business risk most accurately describes the events detailed below.

Event	Business Risk
Failure of a major merger.	
A recall of a product due to the discovery of a potentially dangerous flaw.	
The risk of non-receipt of payments owed to the company.	
Losses due to currency movements.	
The Company exceeding the amount of pollution it is legally allowed to emit.	
Taxation authorities disputing eligibility of the company to exemption from certain classes of taxation in prior years.	

Legal/litigation Risk

Operational Risk

Foreign Exchange Risk

Strategic Risk

Product Reputation Risk

Credit Risk

ANSWER:

Event	Business Risk
Failure of a major merger.	Strategic Risk
A recall of a product due to the discovery of a potentially dangerous flaw.	Product Reputation Risk
The risk of non-receipt of payments owed to the company.	Credit Risk
Losses due to currency movements.	Foreign Exchange Risk
The Company exceeding the amount of pollution it is legally allowed to emit.	Legal/litigation Risk
Taxation authorities disputing eligibility of the company to exemption from certain classes of taxation in prior years.	Legal/litigation Risk

QUESTION NO: 6 - (DRAG DROP)

Y plc a pharmaceutical company has dealt with a number of risks in the manner indicated below.

Use the TARA framework to classify each of Y plc's responses.

A small number of patients have suffered a rash after taking Y plc's best selling drug. Y plc has highlighted the possibility of such a reaction on the drug's packaging.

Three patients died after taking one of Y plc's drugs. Y plc does not believe that the drug caused the deaths, but it has nevertheless ceased production of the drug.

A pill making machine was not getting the dose contained in each pill absolutely correct, so Y plc replaced the machine.

One of Y plc's drugs is less popular because many doctors now prescribe a more modern drug instead. Y plc has decided to keep producing the drug.

One of Y plc's competitors has reduced the price of a drug similar to one of Y plc's most popular drugs. Y plc has not reduced the price.

A member of production staff was overcome by fumes from a leaking pipe. Y plc has since increased its insurance against industrial injuries.

	Transfer
	Accept
	Reduce
	Abandon

ANSWER:

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Abandon
Reduce
Accept
Accept
Transfer

QUESTION NO: 7

M built a large factory last year and it has just been completed. The initial outflows on this project have a present value of \$400 million and the entire project has a net present value of \$30 million.

The initial phase of the project caused problems and there was an overspend of \$35 million as there was unstable soil. The foundations had to be underpinned with large steel bars to ensure the building would be safe. There was no other suitable site for the project.

The construction could not be abandoned as the site would have had very little commercial value.

The Internal Audit department has been asked to carry out a post completion audit. What issues should it concentrate on?

- A. The audit should consider the initial survey report when the land was purchased to see if the survey mentioned the unstable soil.
- B. The audit should look at documentation to ensure proper procedures were followed at all stages of the project.
- C. The audit should consider what lessons could be learned for future projects.
- D. The audit should find out who was to blame for the project being over budget.
- E. The audit should consider whether it should have built the factory without underpinning and sold it on quickly.

ANSWER: A B C

QUESTION NO: 8

H manufactures and sells healthy dietary supplements. The company recruits individuals as part-time agents to sell its products to friends and colleagues. These agents are required to buy H's products and to resell them at a small mark-up.

For a fee H will provide agents with training in persuasive selling techniques. Agents who pass exams at the conclusion of this training can become distributors. Distributors buy bulk quantities of H's products at a discount and can recruit their own sales agents. Those agents can also take training and can recruit agents of their own.

At what stage does H stop being a legitimate business and become a pyramid selling fraud?

- A. When it asks its agents to buy product and marketing material up front.
- B. When it offers returns on its agents' investments that seem remarkable.
- C. When it offers its agents more reward for recruiting other agents than for selling its product.
- D. When its training programmes promise to unlock the secret of selling its product.

ANSWER: C

QUESTION NO: 9

M a manufacturing company has had some problems with defects in one of the main products it produces. This product has been made by the company for many years and is very profitable. Last month it 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 day 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: B D E

QUESTION NO: 10

TYU is a retailer selling televisions. The company is financed wholly by equity.

Why might TYU be exposed to interest rate risk?

- A. Customers' disposable income may change.
- B. TYU's competitors may have variable rate borrowings.
- C. TYU's suppliers may have borrowings.
- D. TYU's cost of capital will vary with interest rates.
- E. TYU's competitors may have fixed rate borrowings.

ANSWER: A B C

QUESTION NO: 11

Which of the following statements are true of economic risk?

- A. Economic risk is easy to measure
- B. Economic risk may be caused by international trade
- C. Economic risk is something which cannot be avoided
- D. Economic risk is influenced by many factors

ANSWER: B D

QUESTION NO: 12

YGH has recently completed a post completion audit on a five year contract that has only recently come to a conclusion. The main finding was that the project delivered most of the expected benefits but that it cost significantly more to implement than had been anticipated at the project appraisal stage. YGH would not have proceeded if the true cost had been known at that stage.

The project was the responsibility of the production department which is presently managed by G.

When the project was proposed the production department was managed by H. H is now YGH's Director of Operations.

How should the finding from this post completion audit be interpreted?

- A. YGH should consider introducing more detailed checking of the assumptions underlying the costs of future projects.
- B. The production department should not be granted funding for future projects unless there are compelling reasons to proceed.
- C. G should be held accountable for the overspend on the project.
- D. H should be held accountable for the overspend on the project.

ANSWER: A

QUESTION NO: 13

N a large company in the food production industry has grown over the years by the acquisition of several smaller rivals. The company has ten branches located in its home country and has just opened a foreign branch for the first time. It has recently made some changes to the structure and implementation of its control system.

Which TWO of these would be most likely to improve the overall control system?

- A. Establishing an Internal Audit department.
- B. Purchase invoices are now approved for payment at branches and a list of approved invoices are sent to head office for payment. The invoices supporting documentation and suppliers' statements are retained at the branches.
- C. Excess funds are now invested by the Finance Director in short-term securities. The Finance Director initiates buy and sell transactions and she also receives and retains all correspondence relating to the investments.
- D. A policy has been initiated to complete a physical inventory of all non-current assets at least annually. This is then reconciled with the non-current asset register.
- E. N has just opened a bank account in the currency in which the newly opened branch is now operating.

ANSWER: A D**QUESTION NO: 14**

Under the COSO Enterprise Risk Management Framework who is responsible for risk management?

- A. Every member of the entity.
- B. The board of directors only.
- C. Managers and directors only.
- D. The shareholders.

ANSWER: A**QUESTION NO: 15**

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