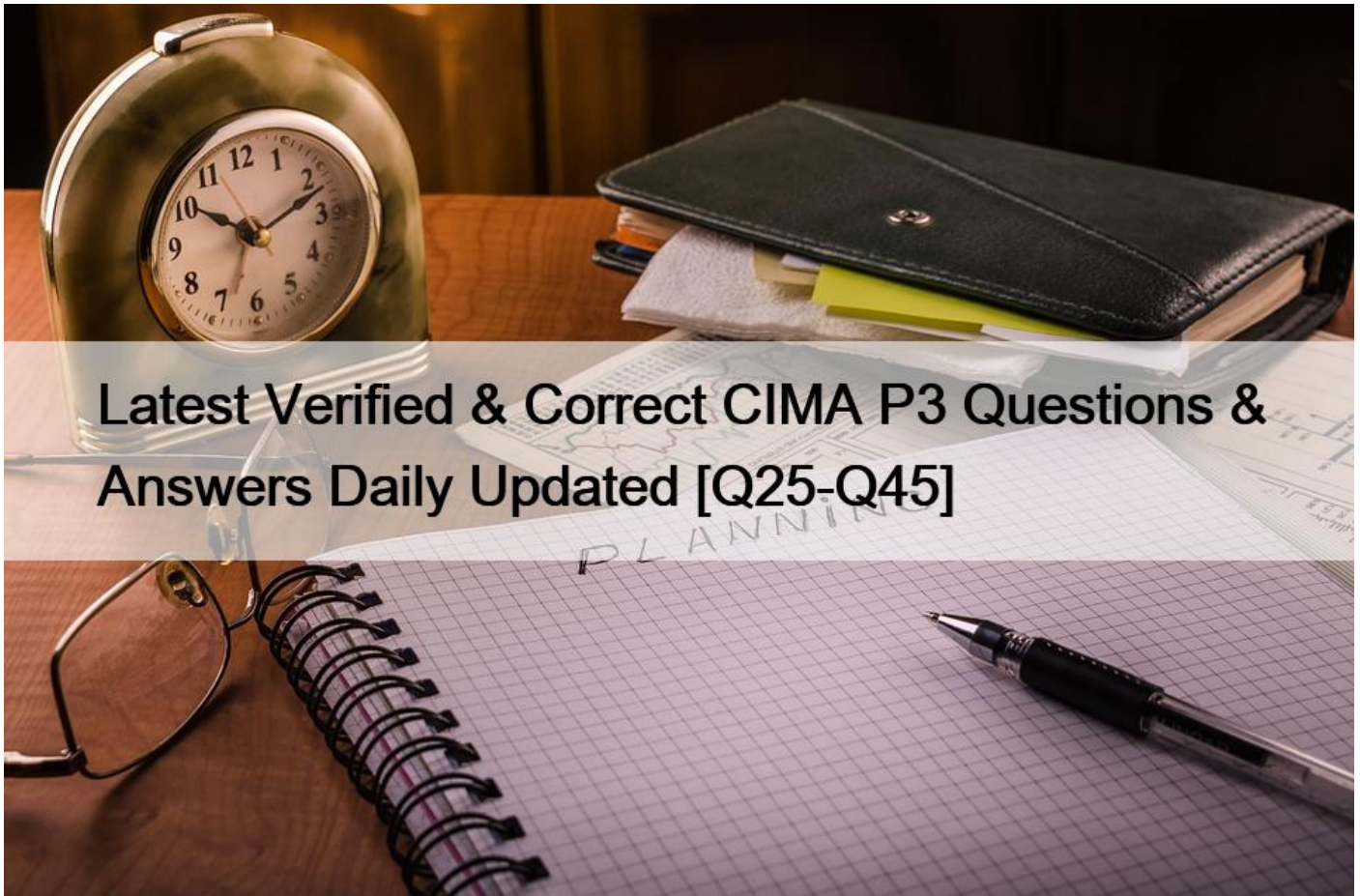


Latest Verified & Correct CIMA P3 Questions & Answers Daily Updated [Q25-Q45]



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NO.25 THG is a quoted company that manufactures expensive clothes that are sold to upmarket department stores THG's Board has commissioned a stress test to identify the impact of strategic risks The consultant who is conducting the test is currently investigating the impact that a 1 % increase in interest rates would have on THG.

Which TWO of the following are valid reasons for including an increase in interest rates in the stress test?

- * Stress testing was first developed for bank supervision.
- * THG might change its prices if interest rates rise
- * Many of the retailers who resell THG's clothes are highly geared
- * THG is highly geared.
- * Interest rates affect consumers' disposable income

NO.26 GUJ A small but rapidly expanding company has recently opened several branches in locations far away from the Head Office. All of the branches are relatively small with no one branch accounting for more than 5% of turnover. Management has decided that the company is not yet large enough to install an Internal Audit function but is, nonetheless, concerned about

maintaining adequate control and monitoring at the branches whilst allowing Branch Managers the opportunity to react to local circumstances as appropriate.

Which of the following measures would assist Head Office management in maintaining appropriate monitoring and control at the branches?

- * Restricting the autonomy of individual Branch Managers to purely routine matters and instructing them to refer everything else to Head Office.
- * Dealing with all Human Resource, recruitment, and similar issues directly from Head Office.
- * Arranging visits by senior management to each branch periodically.
- * Instituting the use of a formalised budgetary control system at head office for all branches.
- * Establishing an open communication policy for employees at branches to allow them to contact Head Office on any matter that concerns them.

NO.27 NTN manufactures mobile phones. The company's directors have created a new formal long term strategy The strategy is based on differentiation. NTN's phones will be thinner and lighter than those of its competitors.

Which TWO of the following statements are correct?

- * NTN's strategy is likely to be particularly successful in a recession
- * NTN is likely to be able to reduce its spend on research and development
- * NTN's strategy is likely to cause competitor price wars.
- * NTN's strategy will make demand for its products less price elastic.
- * NTN is likely to incur higher marketing costs.

NO.28 QAW is a quoted building company QAW has detailed rules relating to the wording of its contracts and the need to seek Board approval for any changes to the standard wording The Convener of the Audit Committee has just received a copy of an internal audit report relating to the QAW Land Reclamation subsidiary The subsidiary has signed several construction contracts over the past two years that have made significant changes to the standard wording, with no attempt to seek approval from QAW's Board The internal audit report quotes the manager in charge of QAW Land Reclamation as refusing to accept that there is a compliance error at the subsidiary The manager stated that the nature of the business done by QAW Land Reclamation would make it inappropriate to use the standard contract terms and that it would be impractical to seek permission for every one of the many changes that are necessary Which of the following would be an appropriate response to this item by QAW's Board?

- * QAW's Director of Legal Affairs should investigate the matter and, if necessary, develop suitable standard contracts for QAW Land Reclamation.
- * The Audit Committee should treat this as an internal matter that should be dealt with by the management team of QAW's Land Reclamation.
- * The Audit Committee should disregard the point because an explanation has been offered by the manager in charge of QAW Land Reclamation.
- * The Audit Committee should seek an indication of the number of contracts with non-standard conditions are still in effect before deciding how to act.

NO.29 B is a quoted construction company. Its Board consists of qualified and experienced engineers Which TWO of the following statements are correct?

- * Creating a nominations committee from B's Board will resolve any issues
- * B's Board cannot be blamed for recruiting like-minded individuals
- * The quality of Board decisions may decrease.
- * There is a greater risk of B's Board making strategic errors.
- * The greater consistency arising from the composition of B's Board will be beneficial

NO.30 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?

- * 7.2%
- * 10%
- * 30%
- * 2%

NO.31 T has its computer facilities in a building adjacent to its headquarters Severe structural problems have been discovered with this building and T has been advised that the only option is demolition and rebuild This leaves T with strategic decisions to make about its IT provision and it has decided to investigate the outsourcing of its services.

Which TWO of the following factors should T consider as most important at this stage?

- * A supplier who can act as a partner in considering all its business needs
- * A supplier who can act as its agent in choosing the cheapest options
- * A supplier who provides a wide range of services
- * A supplier with a long history of providing outsourcing services
- * A supplier who has facilities conveniently located close to its headquarters

NO.32 Which of the following is an ethical dilemma?

- * A company is considering giving poorly-paid staff a generous pay rise.
- * A company is deciding whether to issue debt or equity.
- * A company is deciding whether to make a substantial bonus payment to its directors by means of cash or shares.
- * A company must decide whether to settle a claim from an employee who appears to have fabricated a workplace injury. The company want to avoid the cost of defending the claim.

NO.33 A US company enters into a five year borrowing with bank A at a floating rate of USD Libor plus 2%.

It simultaneously enters into an interest rate swap with bank B at 3.5% fixed against USD Libor plus 1%.

What is the hedged borrowing rate, taking the borrowing and swap into account?

Give your answer to 1 decimal place

4.5%

NO.34 A consultancy firm has many overseas clients The firm's staff are responsible for booking travel and accommodation through an independent travel agent who invoices the firm. There are strict rules governing bookings Staff at all levels must book economy class fares unless the scheduled flight time is greater than eight hours, in which case they can book a business class seat Hotel accommodation should cost less than \$300 per night One of the firm's directors is visiting the consultancy team responsible for a large overseas project The director flew business class, even though the flight took only five hours The director is booked into an executive suite at an expensive hotel at a cost of \$900 per night Which TWO of the following statements concerning the director's behavior are correct?

- * Directors are not required to adhere to company policies in the same manner as more junior staff
- * The travel agent's invoice should be queried by the consultancy's administrative staff.
- * Staff may be encouraged to book more expensive flights and accommodation in the future
- * In future, all staff should be permitted to fly business class and use more luxurious hotels
- * Only the staff engaged on this project will be aware of the director's behavior

NO.35 Amber selects appropriate suppliers and places purchase orders.

Brian passes invoices for payment and submits payment instructions to the bank.

Chris checks incoming inventory and unpacks goods from their containers.

Dirwan posts purchase invoices and files invoices and supporting documents.

Which member of staff could most easily commit fraud?

- * Amber
- * Brian
- * Chris
- * Dirwan

NO.36 A patient has been prescribed a new medicine by their physician. The medicine is accompanied by a leaflet describing potential adverse effects associated with taking it. Most of these potentially adverse effects are trivial, but the leaflet states that three patients in every 10,000 who take the medicine suffer a severe reaction requiring urgent medical attention.

Which of the following statements is true?

- * Statistical probabilities mean very little in themselves when dealing with decisions that could have serious consequences, such as whether to take this medicine.
- * The patient should ignore the risk because there is only a 0.03% risk of a severe adverse reaction.
- * Statistically, the medicine is safe.
- * The patient should not be concerned because only those few patients who are susceptible to this reaction are at risk.

NO.37 VBN is a multinational company that has 60 subsidiary companies that operate in 11 countries. VBN evaluates the performance of each subsidiary as an investment centre, using residual income to measure performance.

Which THREE of the following threats of dysfunctional behaviour may arise from VBN's use of residual income to measure subsidiaries' performance?

- * Subsidiary boards may actively hedge translation risks.
- * Subsidiary boards may take a short-term view to investment projects.
- * Subsidiary boards may waste time by arguing over transfer prices.
- * Subsidiary boards may waste time and incur unnecessary fees in order to recognise gains on the revaluation of property.
- * Subsidiary boards may be motivated to spend heavily on capital expenditure in order to ensure that budget allocations are maintained and even increased.

NO.38 COM is a well established company in the construction industry The company was founded by the Mac family

30 years ago and several family members still serve on the Board The company obtained a listing five years ago The Board has an appropriate balance between executive and non-executive members It also has audit remuneration and nomination committees The average age of board members is 68 COM is profitable but profit margins have been falling steadily and this year's revenues are lower than it was achieved last year The Board recognis thai it does not have a long term strategy in place and has been losing business to newer, more aggressive competitors Which THREE of the following statements are correct?

- * The remuneration committee should consider incentives such as share options to encourage the Board to focus on COM's long term strategy
- * The nomination committee should have had a succession plan in place for directors.
- * The nomination committee should be operating for the benefit of the directors.
- * The audit committee should have alerted the Board to the impact of falling profit margins
- * The non-executive directors should have challenged the lack of long term strategic planning

NO.39 The internal audit department should always give a report at the end of its audit. This report is intended to be useful and help the company going forward. The report should always include any recommendations for improvements. Which of the following statements are true and which are false?

True	False
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Internal audit should have a post implementation review to see how its recommendations have been implemented by the company.	
If residual risk is not reduced by its recommendations then they are not worth implementing.	
Even if the recommendations are not cost effective they should be implemented as they may increase internal control.	
The internal auditors should themselves implement the internal controls suggested.	

True	False
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Internal audit should have a post implementation review to see how its recommendations have been implemented by the company.	True
If residual risk is not reduced by its recommendations then they are not worth implementing.	True
Even if the recommendations are not cost effective they should be implemented as they may increase internal control.	False
The internal auditors should themselves implement the internal controls suggested.	False

Internal audit should have a post implementation review to see how its recommendations have been implemented by the company.	True
If residual risk is not reduced by its recommendations then they are not worth implementing.	True
Even if the recommendations are not cost effective they should be implemented as they may increase internal control.	False
The internal auditors should themselves implement the internal controls suggested.	False

NO.40 The managers of a company are agents for the shareholders tasked with increasing shareholders' wealth.

Which of the following will usually increase shareholders' wealth?

- * Investing in projects with the shortest payback period.
- * Investing in projects with positive net present value.
- * Investing in projects with the greatest level of risk.
- * Not paying a dividend for several years in order to invest in new projects.

NO.41 As part of risk assessment exercise for a low-cost airline you are requested to match the risks listed below with the most appropriate method of minimising or dealing with each risk.

Risk assessment	Appropriate method
Weather related flight disruptions	
Fuel price increase	
Industrial relations difficulties with crew	
Increase in capital cost of aircraft	

- Put appropriate insurance in place
- Maintain proper Human Resource procedures
- Use appropriate financial instruments
- Careful capacity planning and forecasting

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NO.42 Jo is a well known entrepreneur who founded JIS. a global producer of high technology equipment JIS has grown rapidly and was listed two years ago JIS's share price has grown steadily since its listing Jo serves as both CEO and Chair A recent newspaper article has suggested that JIS would benefit from having a separate CEO and Chair Which TWO of the following arguments are valid?

- * If Jo remains as Chair and a new CEO is appointed then Jo will remain responsible for implementing policies to execute the Board's strategy
- * Without a Chair to report to, Jo might pressurise the other directors into action that could damage JIS.
- * If Jo remains as CEO and a new Chair is appointed then Jo should still attend all meetings between non-executive directors and the Chair.
- * Jo's setting as both Chair and CEO gives clarity of leadership and means JIS benefits from Jo's skills and

knowledge of the company

* There should be a division of responsibilities between the CEO running the Board and the Chair running the company's business

NO.43 The Dean of Information Technology at Capital City University wishes to develop a degree in 'ethical hacking'; Students will graduate from this course with the skills needed to develop malware, so that they have the ability to reverse engineer malicious software The Dean believes that there will be strong demand for such graduates from employers in IT security and related fields.

Which TWO of the following statements are correct?

- * Potential employers would be suspicious of job applicants whose choice of degree indicates an interest in malware
- * The University should not be equipping its students with skills that could be abused for the purposes of committing crime or causing harm
- * The course should teach students to reverse engineer malware without enabling them to write malware
- * The University should conduct detailed background checks on applicants before they are admitted to this degree
- * The academic staff teaching on this degree may struggle to keep up to date with the latest developments in malware

NO.44 A UK manufacturing company has simultaneously:

- * purchased a put option to sell USD 1million at an exercise price of GBP1.00 = USD1.65
- * sold a call option that grants the option holder the right to buy USD 1million at a price of GBP1.00 = USD1.61 (this option has the same maturity date as the put).

Which of the following is a valid explanation for entering into these option positions?

- * The company expects to receive USD 1million from a customer and wishes to offset the cost of the put option by the premium on the call option.
- * The company expects to pay USD 1million to a supplier and wishes to offset the premium from the call option against the cost of the put option.
- * The company expects to receive USD 1million from a customer and wishes to obtain an additional benefit if the USD strengthens beyond GBP 1.00 = USD 1.61.
- * The company expects to pay USD 1million to a supplier and wishes to obtain additional protection against the USD strengthening beyond GBP 1.00 = USD 1.65.

NO.45 The Committee of Sponsoring Organisations (COSO) outlined six key principles of Enterprise Risk Management (ERM).

Which of the following are COSO key principles?

- * The creation of a risk aware culture.
- * A comprehensive and holistic approach to risk management.
- * Risk management is the responsibility of the risk committee.
- * Consideration of risk management in the context of business strategy.
- * Consideration of the main risk only which is financial risk.

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