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Question 1

Question Type: MultipleChoice

C Ltd is a private, family-owned company which is hoping to become listed on a recognised Stock Exchange within the next two years. At the moment, the Board of Directors comprises five directors; four of whom are from the founding family and all of whom are involved in the day-to-day running of the business. The remaining director obtained a seat on the Board three years ago as a condition of an investment by a venture capital fund.

The Board meets in half-day sessions once a fortnight and the Board meetings are reasonably well run. All decisions are taken by the Board as a whole. There are no sub-committees.

Which of the following steps would it be appropriate for C Ltd to take in the light of the proposed listing?

Options:

- A-** Appoint enough independent non-executive directors (NEDs) that they make up at least 50% of the Board.
- B-** Appoint one of the NEDs as Chair of the Board.
- C-** Insist that the venture capital company director be removed as he is not necessarily motivated to act in the best interests of C Ltd.
- D-** Set up at least three sub-committees namely remuneration, nomination, and audit committees.
- E-** Ensure that the current executive directors are given 10 year contracts starting on the day the company is floated, to ensure consistency and continuity in the management of the company.

F- Set up an 'agenda setting' sub-committee consisting of the current executive directors to decide the agenda for each Board meeting.

Answer:

A, B, D

Question 2

Question Type: MultipleChoice

You have just been employed as a management accountant in a small business with an annual turnover of \$0.5 million.

You have a wide range of duties because the business is small.

Which of the following is an ethical risk?

Options:

A- Being asked to buy very small gifts for key clients.

B- Being asked to work weekends, playing golf with clients.

C- Being asked to work weekends, taking clients to night clubs making sure they have as much alcoholic drink as they want so that they will sign contracts.

D- Being asked to work weekends working out tenders for new contracts.

Answer:

C

Question 3

Question Type: MultipleChoice

S Doc is an out-of-hours service provided by a country's government. The service allows members of the public to call and speak to a nurse who can advise on medical situations which are not obviously emergencies. Depending on the situation the caller can be referred to the full emergency services, or be advised to go to Accident and Emergency at the nearest hospital. Alternatively, a callout from a general practitioner (GP) can be organised; the caller can be advised of where GP services are available; advice can be given over the phone; or a decision can be taken that no further action is required at least until normal services resume on the next working day.

There has been a suggestion that the nurses who take these calls could be replaced by suitably trained operatives who have available to them a specially designed expert system.

Which of the following are advantages of using an expert system instead of nurses?

Options:

- A-** The operatives would be too careful and therefore would recommend unnecessary treatments or interventions.
- B-** Some callers may present with complicated scenarios that a non-medically trained operative or expert system would be unable to recognise (for example, psychological issues).
- C-** Using an expert system would make operatives less inclined to feel sorry for the caller and ensure that only relevant facts were considered in coming to a decision.
- D-** The use of an expert system would ensure that only relevant questions were asked of the caller and that operatives did not miss something vital due to distraction or fatigue.
- E-** The expert system will always follow the same path whereas the nurses may have more knowledge about some health issues and very little about others.

Answer:

C, D, E

Question 4

Question Type: MultipleChoice

Division A of X plc produced the following results in the last financial year.

Net profit \$200,000 Gross capital employed \$1,000,000

For evaluation purposes all divisional assets are valued at original cost.

The division is considering a project that has a positive NPV, will increase annual net profit by \$15,000, but will require average inventory levels to increase by \$50,000 and non-current assets to increase by \$50,000.

Xplc imposes a 16% capital charge on its divisions. Given these circumstances, will the evaluation criteria of return on investment (ROI) and residual income (RI) motivate division managers to accept the project?

Options:

- A- ROI Yes RI Yes
- B- ROI Yes RI No
- C- ROI No RI Yes
- D- ROI No RI No

Answer:

D

Question 5

Question Type: MultipleChoice

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?

Options:

- 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 6

Question Type: MultipleChoice

Which of the following is an ethical dilemma?

Options:

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

Answer:

A

Question 7

Question Type: MultipleChoice

An oil company has entered into a joint venture with a competing oil company to develop a new oil field. The joint venture arrangement is intended to mitigate the risks associated with developing the oil field.

The following disclosure appears in the oil company's risk report:

"Many of our large projects and operations are conducted through joint ventures. These arrangements involve complex risk allocation and indemnification arrangements and we have less control over these activities than we would have if we had full ownership and control. Our partners may have economic or business interests that are opposed to ours, and may exercise the right to block key decisions or actions. We believe the joint arrangement is in our best interest."

Which of the following statements are correct?

Options:

- A-** The risk report means that the shareholders know exactly how bad the risk is.
- B-** The risk report says nothing useful about the risk.
- C-** Now the shareholders know the directors are aware of the risk.
- D-** If the risk report had not reported the risk the shareholders might not have been aware of the risk.
- E-** The shareholders now have more useful information.

Answer:

C, D, E

Question 8

Question Type: MultipleChoice

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

Options:

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

Answer:

A

Question 9

Question Type: MultipleChoice

An electricity company owns and operates a nuclear power station located ten miles from a large city. A recent and very extensive engineering examination of the power station concludes with the estimate that the probability of a major nuclear disaster within the next

20 years is 0.2%.

Which of the following best explains the relevance of quantifying the risk in that way?

Options:

- A-** There is no acceptable level of risk for a major nuclear accident and so the probability has little information value in itself.
- B-** The probability is so low as to be ignored.
- C-** The directors will be able to argue that they were not negligent in the event of a major disaster within the 20 year period.
- D-** The calculation of a precise probability demonstrates that the engineers who conducted the inspection are experts in their field.

Answer:

A

Question 10

Question Type: MultipleChoice

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?

Options:

A- -\$5million

B- -\$0.2million

C- \$1million

D- \$4.8million

Answer:

D

Question 11

Question Type: MultipleChoice

Which of the following represents the greatest risk associated with introducing a system of post-completion audit for investment projects?

Options:

- A- Decision makers may be deterred from taking responsible risks.
- B- The entity will realise that its approach to project appraisal is flawed.
- C- The audit itself will waste time.
- D- The entity may withdraw from a project without good cause.

Answer:

A

Question 12

Question Type: MultipleChoice

You are a consultant to an international charity which provides aid to people displaced by war, civil unrest, and natural disaster. The charity has requested you to carry out a post implementation review on their new procurement and logistics system. Which TWO of the following should you be most concerned about when conducting this review?

Options:

- A- An assessment of how the aid is used once it has arrived at its destination.
- B- The identification of the reason for any cost overruns so as to be able to assign responsibility to particular individuals so that the

management can deal with them as they see fit.

C- An assessment of the extent to which the new system has led to more efficient delivery of aid to those in need.

D- To create a record of good and bad experiences in relation to the implementation of the project so that the charity is able to learn from them should they decide to implement a similar project in the future.

Answer:

C, D

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