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Question 1

Question Type: MultipleChoice

The shares of a company have a beta factor of 1.15. Therefore, which of the following must be true?

Options:

- A- The shares have more unsystematic risk than the stock market average.
- B- The shares have more systematic risk than the stock market average.
- C- The shares have more total risk than the stock market average.
- D- The shares have less unsystematic risk than the stock market average.

Answer:

B

Question 2

Question Type: MultipleChoice

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?

Options:

A- 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.

B- 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.

C- 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.

D- 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.

Answer:

A

Question 3

Question Type: MultipleChoice

James owns a small company which sometimes suffers from credit risk.

Which of the following measures should he put in place to help reduce this risk?

Options:

- A- Introduce credit checks for new customers.
- B- Reduce the company bank loans.
- C- Pay suppliers' invoices quicker.
- D- Look for a loan with a lower interest rate.

Answer:

A

Question 4

Question Type: MultipleChoice

Which of the following is NOT a financial risk.

Options:

- A- Selling goods on credit terms.
- B- Taking out variable rate loans to finance short term investments.
- C- Sourcing raw materials overseas to manufacture goods.
- D- Global warming.

Answer:

D

Question 5

Question Type: MultipleChoice

You have been assigned the role of lead internal auditor. Your task is to carryout the annual assessment of the production line maintenance department.

When planning for this audit, which of the following must be completed?

Options:

- A- Prepare the report.
- B- Establish whether the controls are adequate or not.
- C- Decide how the controls will be tested.
- D- Learn all about the systems and controls in the department.
- E- Carefully consider any control weaknesses that are reported.
- F- Review previous audit findings for the department.

Answer:

C, D, F

Question 6

Question Type: MultipleChoice

The management of U is reviewing internal controls throughout the company. It has noted the following:-

1. In the trade receivables section, journal adjustments are made by the clerks, without any reference to their supervisor. Journal adjustments may relate to sales returns, discounts allowed, or transfers between accounts.
2. In the purchasing department, the purchasing manager selects and approves all suppliers, as they are the only person with sufficient experience to do so. They use a very limited number of suppliers because they can rely on these suppliers to provide goods of the quality required at a competitive price. They do not keep any documents in relation to negotiations with other potential suppliers or other quotes obtained.

In relation to the above, which of the following statements are valid?

Options:

- A-** The fact that the purchasing manager uses a very small number of suppliers is, in itself, a sign of poor internal controls.
- B-** It is acceptable for clerks in the trade receivables section to make journal adjustments without authorisation provided the amounts involved are not material to U's financial statements.
- C-** It is acceptable for clerks in the trade receivable section to make journal adjustments without authorisation, provided they have no access to cash receipts.
- D-** The fact that the purchasing manager does not keep documentation relating to negotiations with suppliers, or potential suppliers, is evidence that they are involved in fraudulent activity.
- E-** Clerks making journal adjustments without reference to their supervisor is evidence of inadequate separation of duties.
- F-** The way the role of purchasing manager is carried out in U increases the chance that the company will fall victim to fraudulent activity.

Answer:

E, F

Question 7

Question Type: MultipleChoice

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

Options:

- 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

Question 8

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 9

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

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