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P3 Risk Management

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Question: 169

W plc is a large international supermarket chain. It has many thousands of suppliers and many thousands of others competing for "shelf space" in its supermarkets.

Which of the following would be appropriate provisions for W plc to include in its Ethical Code in relation to its suppliers?

- A. W plc shall not use its buying power unscrupulously.
- B. W plc shall endeavour to adhere to the terms of its contracts with its suppliers at all times.
- C. W plc shall keep confidential all information received from suppliers and potential suppliers.
- D. W plc shall continuously remind suppliers that it always has several alternative suppliers to choose from.
- E. W plc shall endeavour to take as high a percentage of each supplier's output as possible.
- F. W plc shall insist on an exclusivity agreement with each supplier so that identical products are not available from other outlets.

Answer: A,B,C

Question: 170

The treasurer of IOK is considering entering into a money market hedge in order to hedge a payable.

Which of the following might be valid explanations for the use of a money market hedge for this purpose?

- A. There are no forward contracts available for the purchase of the payable currency using IOK's home currency.
- B. The timing of the payable does not permit the use of a forward contract.
- C. The relevant currency markets are very thinly traded and the treasurer believes that forward contracts are mispriced.
- D. A money market hedge is easier and less expensive to organise than a future or forward contract.
- E. Money market hedges can be unwound whereas positions in derivatives cannot.

Answer: A,B,C

Question: 171

DFG is the largest bridge-building company in its home country, H. DFG works exclusively for the government of country H and the government awards DFG 80% of the contracts to build new bridges.

DFG's directors are considering using the big data approach to identify opportunities to increase sales revenues and profit.

Which of the following statements are true?

- A. Big data has the potential to identify ways in which DFG can reduce construction costs.
- B. DFG should supplement its existing databases in order to enhance the benefit from big data.
- C. The big data approach may help DFG to price contract bids more accurately.
- D. Big data has the potential to identify ways in which DFG can increase sales.
- E. It would be unethical for DFG to use big data in order to compete even more effectively with its rivals.

Answer: A,B,C

Question: 172

When a new computer system is being implemented there are several possible methods for managing the changeover from the old system to the new system.

Which THREE of the following are true?

- A. Phased changeover is the safest and slowest method of changeover.
- B. Phased changeover moves individual portions of the business to the new system one at a time.
- C. Pilot changeover moves the simplest part of the business to the new system first.
- D. Parallel running involves keeping the old system running, normally until certain data retention criteria are met or confidence is gained, while the new system deals with the new workload. Data input is usually carried out on both systems.
- E. Direct changeover, or Big Bang is only used when the systems are significantly different such that comparing the outputs of the two systems is largely irrelevant.
- F. All methods of changeover carry high risk and it is the preparation, consideration of data compatibility and data cleansing before the changeover which has the biggest impact on the smoothness of the transition.

Answer: B,D,F

Question: 173

ZZ is a data security company that is responsible for cyber security in a large shopping mall. It uses Network Configuration Management (NCM) to assist it in meeting the various needs of the mall's user community.

Which THREE of the following are advantages provided by NCM?

- A. NCM allows ZZ to prevent data corruption for different user groups in the mall
- B. NCM allows ZZ to provide different service levels for different user groups in the mall
- C. NCM allows ZZ to segregate traffic for different user groups in the mall
- D. NCM allows ZZ to prevent scanners being used on the public WiFi for different user groups in the mall
- E. NCM allows ZZ to restrict traffic for different user groups in the mall
- F. NCM allows ZZ to stop malware from being spread for different user groups in the mall

Answer: B,C,D

Question: 174

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?

- A. Amber
- B. Brian

- C. Chris
- D. Dirwan

Answer: B

Question: 175

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.

X plc 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 A managers to accept the project?

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

Answer: D

Question: 176

A project has been evaluated on the basis that it will cost \$14 million and will have a net present value of \$2.3 million.

The project has commenced and \$3 million of the initial \$14 million has been invested. A problem has been discovered that will cost an additional \$2.5 million to rectify. The \$2.5 million will be payable immediately.

What is the NPV of continuing with this project?

- A. -\$3 million
- B. -\$0.2 million
- C. \$1.8 million
- D. \$2.8 million

Answer: D

Question: 177

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

Answer:

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

Question: 178

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?

- 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: 179

DRAG DROP

Select the most appropriate level of responsibility for managing each of the following risks.

Board of directors	Managers	Supervisors
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Growth strategy may be inappropriate for the entity

Badly designed advertising campaigns may lose sales

Failure to implement internal checks may lead to employee fraud

Staff may be injured through failure to adhere to safety rules

Human resources policies may not keep up to date with changes in employment law

Shareholders may be dissatisfied with dividend levels

Answer:

Board of directors	Managers	Supervisors
---------------------------	-----------------	--------------------

Growth strategy may be inappropriate for the entity

Badly designed advertising campaigns may lose sales

Failure to implement internal checks may lead to employee fraud

Staff may be injured through failure to adhere to safety rules

Human resources policies may not keep up to date with changes in employment law

Shareholders may be dissatisfied with dividend levels

Board of directors
Managers
Supervisors
Supervisors
Managers
Board of directors

Question: 180

A UK based company is considering an investment of GB£1,000,000 in a project in the USA. It is anticipated that the following cash flows will arise from this project.

The cash flows will be either US\$400,000 with a probability of 40% or US\$700,000 with a probability of 60% for each of the next three years; remitted to the UK at the end of each year.

Currently GB£1.00 is worth US\$1.30.

The expected inflation rates in the two countries over the next four years are 2% in the UK and 4% in the US.

Applying the Purchasing Power Parity Theory, which of the following represents the expected net present value of the project in GP£ (to the nearest whole pound)?

- A. GB£287,639
- B. GB£391,640
- C. GB£(111,973)
- D. GB£554,047

Answer: A

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