

CIMA

CIMAPRA19-P03-1 Exam

CIMA Risk Management Exam



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Version: 8.0

Question: 1

The Committee of Sponsoring Organisations (COSO) outlined six key principles of Enterprise Risk Management (ERM).

Which of the following are COSO key principles?

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

Answer: A, B, D

Question: 2

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:

Growth strategy may be inappropriate for the entity	Board of directors
Badly designed advertising campaigns may lose sales	Managers
Failure to implement internal checks may lead to employee fraud	Supervisors
Staff may be injured through failure to adhere to safety rules	Supervisors
Human resources policies may not keep up to date with changes in employment law	Managers
Shareholders may be dissatisfied with dividend levels	Board of directors

Question: 3

K Ltd is an on-line travel agency specialising in budget package holidays to a small number of popular locations. The holidays that it sells are made up of a "package" of flights, hotel accommodation and food. K Ltd's Finance Director is concerned that the company's scope of operation is too narrow and wishes to diversify.

Identify TWO actions that K Ltd should take immediately.

- A. Set up a number of activity holidays; adventure, sports and trekking for example.
- B. Bulk book cruise accommodation and create a special package deal for retired couples.
- C. Expand the number of locations it currently serves.
- D. Re-image the locations it currently serves to make them more exotic and family friendly.
- E. Review the customer base looking at feedback, repeat sales and single visit statistics.
- F. Engage market researchers to look at future trends in holiday requirements.

Answer: E, F

Question: 4

Which of the following statements are correct?

- A. It is always possible to remove all risks when undertaking large projects.
- B. If a project has high risks it should always be accepted as the rewards will always be high.
- C. If a project has low risks it will usually have relatively low returns.
- D. Risk can always be transferred to someone else.
- E. Risk should be carefully considered when evaluating possible future projects.

Answer: C, E

Question: 5

A hospital is part of a government provided health service which is free to patients. The management of the hospital is concerned with the need to minimise the risks to which the hospital is exposed from patient litigation.

In this context, which TWO of the following are appropriate steps to manage this risk?

- A. Ensuring that patients undergoing procedures sign documentation to confirm that the risks have been explained to them and that they understand.
- B. Allocating a risk score to patients depending on age, general health and similar consideration and refusing to admit patients whose risk score exceeds a certain threshold.
- C. Ensuring that a policy is in place to transfer or discharge critically ill patients so as to minimise fatalities in the hospital.
- D. Ensure that proper documentation is in place for all patients showing such details as symptoms, treatments, and test results.
- E. The management refuses to allow the hospital to participate in the Major Accident Plan for the city in which it is located. It believes the Plan could expose the hospital to excessive risk.

Answer: A, D

Question: 6

D is a large oil refinery.

The managers have identified four risks shown in the risk map below:

Which of the risk mitigations listed below would be the best for dealing with the two risks classified as medium likelihood and high impact?

- A. Accept
- B. Reduce
- C. Transfer
- D. Avoid

Answer: C

Question: 7

Which of the following are true of an effective risk management culture?

- A. Staff should be penalised for being associated with negative events.
- B. All risk should be eliminated.
- C. Responsibility for risk management should be devolved to a risk manager.
- D. All staff should be aware of risks affecting the entity.

- E. Risk management should be regarded as part of the overall business strategy.
- F. The directors should take an active interest in risk management.

Answer: D, E, F

Question: 8

The safety guard on a piece of equipment was broken. The factory manager suspended an operator who refused to operate the equipment until it was repaired. The factory manager paid another operator a bonus for operating the damaged equipment until the safety guard could be repaired. What does this incident say about the control environment within that factory?

- A. Management is not particularly concerned with managing risks.
- B. Employees will perceive that management does not care about health and safety risks.
- C. This factory's safety record is likely to be poor.
- D. Employees are motivated to maintain productivity.
- E. Management has a proportionate and considered attitude towards risk.

Answer: A, B, C

Question: 9

K is a large mining company. In its risk report it states that there is a risk of accidents and injury because of the nature of the industry. It states that it has staff training in place and complies with all Health and Safety regulations but in spite of this there will still be a residual risk that accidents and injuries may occur.

Which of the following statements are correct?

- A. The shareholders should not invest because there is still a residual risk.
- B. The directors are avoiding their responsibilities by saying there is a residual risk.
- C. Some risks cannot be eliminated.
- D. Accepting a residual risk does not imply the company is reckless.
- E. Most companies in this industry will say something similar in their risk report.

Answer: C, D, E

Question: 10

P Ltd manufactures and sells electrical goods through retail outlets.

N is P Ltd's Sales Director. He has been recently promoted from a senior sales position with P Ltd. He has been forced to spend the first six months as Sales Director on dealing with an administrative mess left behind by the previous sales director.

You are a Senior Management Accountant at P Ltd. You have worked with N for many years.

N has worked hard and has made many changes that have brought significant benefit to the business.

N has asked you to postpone the recording of some purchase invoices so that he will meet his quarterly targets on profit margin.

What should you do?

- A. Collect all the facts, distance yourself from the situation but say nothing.
- B. Write up the facts of the issue and put it on your files.
- C. Document the situation and present the facts to your manager.
- D. Do nothing, no rules have been broken, tell N that you cannot do as he asks and that he needs to abide by the professional codes.

Answer: D

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