CIMA P3 Exam Dumps and Real Exam Questions - Pass CIMA P3 Easily

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CIMA
P3 Exam
Risk Management Exam

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Question: 1
Which ONE of the following correctly describes risk categorization/classification?
(i) Interest rate risk and foreign exchange risk are externally driven whilst risks related to suppliers, M&As and Cash flows are internally driven.
(ii) Risks related to R&D and regulatory authorities are externally driven whilst risks involved with intellectual capital and changes in customer preferences are internally driven.
(iii) Risks related to Natural events are externally driven whilst those related to accounting control and IT systems are internally driven.

A. (i) and (iii) only.
B. (ii) only.
C. (iii) only.
D. None of the above.

Answer: C

Explanation:
Natural events are beyond control for any entity (e.g. one cannot predict the frequency and magnitude of an earthquake in advance). Accounting control systems and IT systems are internally designed and hence any risk therewith is within reasonable control of the entity.

On the other hand, interest rate fluctuations and related risks usually result from Central Regulatory bank (e.g. European Central bank or the Federal Reserve) decisions. Likewise, foreign exchange risk is beyond control for any entity and is mainly driven by government decisions. Although MAs decisions and risks coupled with risks related to Cash flows are internally driven, those relating to Suppliers are clearly external and beyond control for any entity.

Risks related to R&D are internally driven since such decisions are at management’s discretion. Regulatory authorities are external to the organization and hence risks therewith are external too. Changes in customer preferences and hence attached risks are external to any organization. Intellectual capital is inherent to business mostly and internally driven.

Question: 2
Which TWO of the following shows wrong classification of risks?
A. Abnormal wastes arising during production due to low quality stuff or lower grade labor being used is an example of operational risk.

B. Malfunctioning of IT system and hence leaking confidential data is a strategic risk.

C. Risks related to consumer rights protection and improved health and safety would be classified as strategic risks.

D. A company’s driver committing a breach of law (e.g. over-speeding or parking at an inappropriate place) would be classified as a hazard risk.

Answer: BD

Explanation:
Malfunctioning of an IT system has nothing to do with strategy. It is related to operations and hence is an operational risk.
Option D describes an operational risk. Hazard risks are usually those concerned with natural disasters.
Option A correctly describes operational risk as both lower grade labor and raw materials relates to the daily operations.
Option C correctly describes strategic risks. Consumer and health and safety laws are to be looked at by higher management.

Question: 3
Which ONE of the following correctly describes the three lines of defense in relation to Assurance mapping?

A. ‘Management controls’ appears as the first line of defense followed by ‘Operational controls’ and the third line of defense is ‘Independent assurance’.

B. ‘Operational controls’ are the first line of defense, followed by ‘Management controls’ and lastly ‘independent assurance’ comes as a third line of defense.

C. The correct sequence for the three lines of defense is: ‘Independent assurance’, ‘Operational controls’ and finally ‘management controls’.

D. None of the above correctly describes the three lines of defense.

Answer: B

Explanation:
The first line of defense is the operational controls - people using their day-to-day reporting

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mechanisms. The second line of defense is the management controls which is different (and higher in hierarchy) from operational controls. Yet, they are part of the operational chain of command and looks at things from a strategic perspective. The final line of defense is independent assurance such as internal audit or in a more enhanced form- the external audit.

Question: 4
Which ONE of the following is correct?

A. Risk and Uncertainty are two different but related words and can be used interchangeably. The only difference being risk refers to more severe cases comparatively.

B. There is an inherent relation between risk and rewards suggesting risky ventures would be expected to yield higher gains and vice versa.

C. Understanding and assessing risks involves quantifying risks usually with the aid of sensitivity analysis and statistical techniques such as simulation to ensure outcome is always as per expectations or better.

D. Risk means the danger of outcome being worse than expectations and hence shall be avoided in all circumstances.

Answer: B

Explanation:
Option B is correct. The greater the risk involved, the greater the expected return would be. On the other hand, smaller risks usually suggest smaller return with added safety.
Option A is not true. Risk and Uncertainty although used interchangeably; are two different words with different meanings. Risk refers to uncertainty with a quantifiable variation among the possible outcomes whilst for uncertainty; no mathematical probabilities can be attached to outcomes.
Option C needs careful attention. It states a fact as assessment and understanding of risks involves quantifying it using techniques like Regression analysis, sensitivity analysis, Simulation, Value at risk etc, but such quantification never confirms that outcome will be as per expectations or better. It is just an idea of what best/worst can happen.
Option D is not true. We know risk can Upside or Downside. All risks are not such that they imply negative outcome. Risks can offer opportunities too.

Question: 5
Which ONE of the following is FALSE?

A. Risk quantification helps in understanding and assessing the nature and severity of risks.
Using probabilities gives an idea regarding the chances of arising losses.

B. Risk rating is a simple technique, which can be based on the probabilities e.g. there is a 70% chance of risk getting materialized.

C. Expected values are defined by CIMA official terminology as: 'means of calculating the average outcome by assigning probabilities to different outcomes'.

D. Risk mapping means categorizing risks into different classes (risk families) as per the outcome of risk assessment.

Answer: C

Explanation:
Option C correctly describes Expected values but it is not the official definition as per CIMA official terminology which if given below:
Expected value is 'The financial forecast of the outcome of a course of action multiplied by the probability of achieving that outcome. The probability is expressed as a value ranging from 0 to 1.'
Option AB and D all states facts.

Question: 6
Which ONE of the following is NOT TRUE for contingency planning in relation to loss control?

A. Contingency planning is about minimising losses through prior planning for information needs after an adverse event like a burglary or vandalism occurs.

B. Contingency planning also involves handing over respective responsibilities formally to competent authority.

C. Contingency planning also involves testing a demo with proper supervision to ensure any needful changes are timely incorporated.

D. Contingency planning is only relevant to loss making activities and are as such not involved with profitable projects.

Answer: D

Explanation:
Although, contingency planning is most often discussed in relation to losses and unwanted events, it is nevertheless not true entirely. Profits, cash inflows and gains need careful consideration to ensure events are capitalized on and maximized for the benefit of the