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Question 1

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 2

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 aidto 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 isable to learn from them should they decide to implement a similar project in the future.

Answer:

C, D

Question 3

Question Type: MultipleChoice

M is a listed company. It is hoping to invest in a risky new venture. M has a substantial amount of cash to invest in the venture. M would have found it difficult to raise new finance as it has a high level of gearing. Which of the following statements about stakeholders' conflicting interests are true?

Options:

A- M's shareholders would only be exposed to the systematic risk from the investment in the new venture.

B- M's credit rating is likely to fall as a result of this new venture.

C- The directors would only beexposed to the systematic riskfrom the investment in the new venture.

D- M's diversification will mean less risk for the shareholders.

Answer:

A, B

Question 4

Question Type: MultipleChoice

WhichTWOof the following are benefits of carrying out a post-completion audit of capital projects?

Options:

A- A post-completion audit can help find out who was to blame for a project exceeding the budget.

B- A post-completion audit can help management understand what went wrong with a project in order to try and prevent the same problem occurring in the future.

C- A post-completion audit can help find out where a project went wrong so it can be fixed immediately.

D- A post-completion audit can investigate variances from the budget on completed projects.

Answer:

B, D

Question 5

Question Type: **MultipleChoice**

Return on capital employed (ROCE) can be a useful measureofdivisional performance.For which of the following types of company is ROCE likely to be most appropriate?

Options:

A- Companies in which there is extensive investment in intellectual property and intangible assets, such as brands and trade marks.

B- Companies in which there is extensive investment in physical assets, such as plant and machinery, with divisions which undertake broadly similar activities.

C- Companies which havebeen created by extensive acquisition and merger activity and include divisions engaged in a variety of activities.

D- Companies in the not-for-profit sector.

Answer:

B

Question 6

Question Type: **MultipleChoice**

A capital investment project shows a NPV of 3,450 at a discounted rate of 8% and an NPV of 1,210 at a discounted rate of 9%.

Whatistheinternal rate ofreturn?

Options:

A- 11.85%

B- 10.85%

C- 10.54%

D- 9.54%

Answer:

D

Question 7

Question Type: MultipleChoice

P Ltd, a manufacturing company, is considering a new capital investment project to set up a new production line. The initial appraisal shows a healthy net present value of $6,465 millionat a discount rate of 10% as shown in the table below:

However, management is unsure about the demand for theproduct which will be produced and has insisted that the future revenues should be reduced to certainity equivalents by taking 70%, 65% and 60% of the years 1,2, and 3 cash inflows respectively.

What should P do?

Options:

A- Proceed with the project, it has a healthy net present value.

B- Stop the project, it has considerable risk.

C- Put pressure on sales and marketing to re-verify their forecasts.

D- Re-appraise the project using other capital appraisal techniques to get a more balanced view.

Answer:

D

Question 8

Question Type: **MultipleChoice**

A project has a net present value of $2 million.

Total cash outflows of this project have a present value of $14 million, which includes staff costs of $10 million.

What is the project's sensitivity to staff costs?

Options:

A- 20%

B- 63%

C- 71%

D- 14%

Answer:

A

Question 9

Question Type: **MultipleChoice**

A project requires a capital investment of 2.7million. The project will save 450,000 each year after taxation. Assume the savings are in perpetuity. The business risk of the venture requires a 15% discount rate. The company has to borrow 1million to finance the project at a rate of 9% and the net tax shield is 30%, the project supports debt which generates an interest tax shield of 0.30 x 0.09 x 1million, which is 27,000 per year in perpetuity.

Calculate the project'sadjustedpresentvalue.

Options:

A- (30,000)

B- 0

C- 570,000

D- 600,000

Answer:

D

Question 10

Question Type: MultipleChoice

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?

Options:

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 11

Question Type: CorrectText

SDF has a variable rate loan of $100 million on which it is paying interest of LIBOR + 2%.

SDF entered into a swap with CV bank to convert this to a fixed rate 7% loan. CV bank charges an annual commission of 0.3% for making this arrangement.

Calculate the net payment from SDF to CV bank at the end of the first year if LIBOR was 3% throughout the year.

Give your answer in $ million, to one decimal place.

Answer: