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NEW QUESTION: 1

Companies now can use electronic transfers to conduct regular business transactions. Which of the following terms best describes a system in which an agreement is made between two or more parties to electronically transfer purchase orders, sales orders, invoices, and/or other financial documents?

- A. Electronic mail email
- B. Electronic funds transfer EFT
- C. Electronic data interchange EDI
- D. Electronic data processing EDP

Answer: (SHOW ANSWER)

Electronic data interchange is the electronic transfer of documents between businesses. EDI was developed to enhance just-in-time (JIT) inventory management. Advantages include speed, reduction of clerical errors, and elimination of repetitive clerical tasks and their costs. A multinational company has an agreement with a value-added network (VAN) that provides the encoding and communications transfer for the company's electronic data interchange (EDI) and electronic funds transfer (EFT) transactions. Before transfer of data to the VAN, the company performs online preprocessing of the transactions. The internal auditor is responsible for assessing preprocessing controls. In addition, the agreement between the company and the VAN states that the internal auditor is allowed to examine and report on the controls in place at the VAN on an annual basis. The contract specifies that access to the VAN can occur on a surprise basis during the second or third quarter of the company's fiscal year. This period was chosen so it would not interfere with processing during the VAN's peak transaction periods. This provision was not reviewed with internal auditing. The annual audit plan approved by the board of directors specifies that a full audit would be done during the current year.

NEW QUESTION: 2

Which of the following budgets serves as a basis for the budgeted income statement?

- A. Only the cash budget and budgeted balance sheet
- B. All financial budgets
- C. All operating budgets
- D. Only the sales and production budgets

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 3

Which of the following application controls can be defined as controls that monitor data being processed and in storage to ensure it remains consistent and correct?

- A. Integrity controls
- B. Output controls
- C. Processing controls
- D. Input controls

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 4

Which of the following factors is most likely to lead to a lack of cohesiveness in a project team?

- A. Common threat
- B. Competition
- C. Small size.
- D. Prestige

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 5

An internal auditor is evaluating an organization's business continuity management program. According to ISA guidance on IT, which of the following tests would best demonstrate the ability to perform key processes without significant problems?

- A. IT systems and application walkthrough
- B. Desk check testing
- C. End-to-end testing
- D. Tabletop or boardroom-style testing

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 6

An entity often factors its accounts receivable. The finance company requires an 8% reserve and charges a 1.5% commission on the amount of the receivable. The remaining amount to be advanced is further reduced by an annual interest charge of 16%. What proceeds (rounded to the nearest dollar) will the entity receive from the finance company at the time a US \$110,000 account that is due in 60 days is turned over to the finance company?

- A. US \$81,950
- B. US \$83,630

C. US \$96,895

D. US \$99,550

Answer: C (LEAVE A REPLY)

The factor will hold out US \$8,800 (\$110,000 x 8%) as a reserve against returns and allowances and US \$1,650 (\$110,000 x 1.5%) as a commission. That leaves US 300,501.11 to be advanced to the seller. However, interest at the rate of 16% annually is also to be withheld. For 60 days that interest would amount to approximately US \$2,655 (assuming a 360-day year). The proceeds to be given to the seller equal US \$96,895 (\$99,550 - \$2,655).

NEW QUESTION: 7

According to MA guidance on IT which of the following best describes a but recovery and restore processes have not been defined?

A. Absence of recovery plan

B. Cold recovery plan.

C. Hot recovery plan

D. Warm recovery plan

Answer: A (LEAVE A REPLY)

NEW QUESTION: 8

Which of the following price adjustment strategies encourages prompt payment?

A. Cash discounts.

B. Quantity discounts.

C. Functional discounts.

D. Seasonal discounts.

Answer: A (LEAVE A REPLY)

Explanation/Reference:

NEW QUESTION: 9

Which of the following budgets must be prepared first?

A. Sales budget.

B. Selling and administrative expenses budget.

C. Cash budget.

D. Production budget.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 10

The activity that involves a trial run of a product in a typical segment of the market before proceeding to a national launch is referred to as:

A. Segmentation

B. Experimentation

C. Test marketing

D. Positioning

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 11

Image processing systems have the potential to reduce the volume of paper circulated throughout an organization. To reduce the likelihood of users relying on the wrong images, management should ensure that appropriate controls exist to maintain the:

- A. Legibility of image data.
- B. Accessibility of image data.
- C. Integrity of index data.
- D. Initial sequence of index data.

Answer: ([SHOW ANSWER](#))

Data integrity is a protectibility objective. If index data for image processing systems are corrupted, users will likely be relying on the wrong images.

NEW QUESTION: 12

In the statement of cash flows, the payment of cash dividends appears in the <List A> activities section as a <List B> of cash.

| | <u>List A</u> | <u>List B</u> |
|----|------------------------|---------------|
| A. | Operating or investing | Source |
| B. | Operating or financing | Use |
| C. | Investing or financing | Use |
| D. | Investing | Source |

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: ([SHOW ANSWER](#))

Dividends paid may be treated as a cash outflow from financing activities because they are a cost of obtaining resources from owners. However, they may also be treated as operating items to help determine the entity's ability to pay dividends from operating cash flows.

NEW QUESTION: 13

In an economic order quantity (EOQ) model, both the costs per order and the holding costs are estimates. If those estimates are varied to determine how much the changes affect the optimal EOQ, such an analysis would be called a:

- A. Forecasting model.
- B. Sensitivity analysis.
- C. Critical path method analysis.
- D. Decision analysis.

Answer: B ([LEAVE A REPLY](#))

An economic order quantity (EOQ) sensitivity analysis involves varying the holding (carrying) costs per unit and/or the order costs to determine how much the changes affect the optimal EOQ.

NEW QUESTION: 14

Under a value-added taxing system:

- A. Businesses must pay a tax only if they make a profit.
- B. Consumer savings are discouraged.
- C. The amount of value added is the difference between an organization's sales and its cost of goods sold.
- D. The consumer ultimately bears the cost of the tax through higher prices.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 15

A capital investment project will have a higher net present value, everything else being equal, if it has:

- A. A higher initial investment level.
- B. Cash inflows that are larger in the later years of the life of the project.
- C. Cash inflows that are larger in the earlier years of the life of the project.
- D. A higher discount rate.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 16

An entity has made all necessary adjusting entries and is now closing its accounts for the period. Dividends of US 1 ...x!.000 were declared and distributed during the year. The entry to close the dividends account would be

- A. Retained earnings US \$30,000 Dividends US \$30,000
- B. Dividends US \$30,000 Retained earnings US \$30,000
- C. Income Summary US \$30,000 Dividends US \$30,000
- D. Dividends US \$30,000 Income Summary US \$30,000

Answer: A (LEAVE A REPLY)

Assuming an account entitled "dividends" or "dividends declared" is debited when dividends payable is credited on the declaration date, it must be closed at the end of the period. The balance in this account is closed directly to retained earnings. The effect of declaring and paying dividends is to reduce retained earnings, so the entry is a debit to retained earnings and a credit to dividends.

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NEW QUESTION: 17

When assessing the adequacy of a risk mitigation strategy, an internal auditor should consider which of the following?

1. Management's tolerance for specific risks.
2. The cost versus benefit of implementing a control.
3. Whether a control can mitigate multiple risks.
4. The ability to test the effectiveness of the control.

- A.** 1, 2, and 3
B. 1, 3, and 4
C. 1, 2, and 4
D. 2, 3, and 4

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 18

Which of the following statements is true with respect to international transfer pricing?

- A.** Transfer prices charged to foreign subsidiaries must be the same as those charged to domestic subsidiaries.
- B.** The existence of tariffs in the foreign country may necessitate that a higher transfer price be charged a foreign subsidiary.
- C.** Limitations on taking profits out of a foreign country can be avoided by charging the foreign subsidiary a higher transfer price.
- D.** Currency restrictions prohibit payments to foreign vendors.

Answer: C ([LEAVE A REPLY](#))

Transfer pricing is an important aspect of the tax calculation for multinational corporations that transfer inventories between branches in different countries. Transfer prices charged to foreign subsidiaries may differ substantially from those charged to domestic subsidiaries for a variety of reasons. Limitations on taking profits out of a foreign country can be avoided by charging the foreign subsidiary a higher transfer price so that little or no profit exists to be repatriated.

NEW QUESTION: 19

Prices vary directly with capacity usage under:

- A.** Collusive pricing.
B. Peak-load pricing.
C. Market-based pricing
D. Cost-based pricing.

Answer: (SHOW ANSWER)

Under peak-load pricing, prices vary directly with capacity usage. Thus, when demand falls and idle capacity is available, the price of a product or service tends to be lower.

NEW QUESTION: 20

The moving-average method of forecasting:

- A. Is a cross-sectional forecasting method.
- B. Regresses the variable of interest on a related variable to develop a forecast.
- C. Derives final forecasts by adjusting the initial forecast based on the smoothing constant.
- D. Includes each new observation in the average as it becomes available and discards the oldest observation.

Answer: D (LEAVE A REPLY)

The simple moving-average method is a smoothing technique that uses the experience of the past N periods (through time period t) to forecast a value for the next period. Thus, the average includes each new observation and discards the oldest observation. The forecast formula for the next period (for time period t+1) is the sum of the last N observations divided by N.

NEW QUESTION: 21

Dale has 20 days to complete production of an order for an important customer. The customer wants 96 units of product that may be painted either red or white. The red units can be produced at a rate of 4 per day. The white units, because of a different quality of paint, can be produced at a rate of 7 per day. The materials for the red units cost US \$80 each, while the white units cost US \$120 each. Dale wants to keep costs at a minimum. What is the constraint that expresses the number of units to be produced?

- A. $4R + 7W = 20$
- B. $R/4 + W/7 < 20$
- C. $R + W = 20$
- D. $4R + 7W = 96$

Answer: B (LEAVE A REPLY)

The constraint function that expresses the number of units to be produced is $R + W = 96$, but that is not one of the answer choices. Another constraint is that the total quantities of red (R) and white (W) units must be produced in 20 or fewer days at a rate of 4 red units per day and 7 white units per day. Thus, the time constraint is $R/4 + W/7 \leq 20$.

NEW QUESTION: 22

The bullwhip, or whiplash, effect on inventories begins when retailers face uncertain demand from consumers caused by randomness in buying habits. It can be avoided by:

- A. The need to purchase or manufacture goods in cost-efficient batches.
- B. Changes in price that may encourage purchases in anticipation of future increases.
- C. Shortages that may lead to rationing by suppliers or manufacturers and hoarding by manufacturers or retailers.
- D. Sharing of information and coordination among the organizations in the supply chain.

Answer: D (LEAVE A REPLY)

Sharing information about sales, inventory, pricing, advertising campaigns, and sales forecasts by all functions and organizations in the supply chain moderates demand uncertainty for all parties. The desired results are a) minimization of inventories held by suppliers, manufacturers, and retailers; b) avoidance of stockouts; c) fewer rush orders; and d) production as needed by retailers.

NEW QUESTION: 23

Using absorption costing, the company's operating profit was:

- A. US \$750,000
- B. US \$900,000 C US \$975,000 D US \$1,020,000

Answer: (SHOW ANSWER)

Under absorption costing, product costs include fixed and variable manufacturing costs. The unit product cost under absorption costing is US \$10 [(\$600,000 + \$400,000) / 100,000 units produced]. All nonmanufacturing costs are expensed in the period incurred. Thus operating profit is US \$900,000.

| | |
|--|----------------------|
| Revenue (85,000 units × US \$30) | US \$2,550,000 |
| Cost of goods sold (85,000 units × US \$10) | (850,000) |
| Nonmanufacturing costs (US \$500,000 + \$300,000) | (800,000) |
| Operating profit | <u>US \$ 900,000</u> |

A company manufactures and sells a single product. Planned and actual production in its first year of operation was 100,000 units. Planned and actual costs for that year were as follow:

| | <u>Manufacturing</u> | <u>Nonmanufacturing</u> |
|----------|----------------------|-------------------------|
| Variable | US \$600,000 | US \$500,000 |
| Fixed | 400,000 | 300,000 |

The company sold 85,000 units of product at a selling price of US \$30 per unit.

NEW QUESTION: 24

An entity has total asset turnover of 3.5 times and a total debt to total assets ratio of 70%. If the entity has total debt of US \$1,000,000, it has a sales level of:

- A. US \$5,000,000.00
- B. US \$2,450,000.00
- C. US \$408,163.26
- D. US \$200,000.00

Answer: A (LEAVE A REPLY)

If the debt-to-total assets ratio is 70% and debt is US \$1,000,000, total assets must be US \$1,428,571.4 (\$1,000,000 / 7). Given total asset turnover sales - total assets) of 3.5, sales must be US \$5,000,000 (3.5 x \$1,423,571.4).

NEW QUESTION: 25

Which one of the following will usually be accounted for by recognizing a provision?

- A. Just prior to the balance sheet date, the board decided b. close a division. No implementation steps have been taken.

B. As of the balance sheet date, the board was aware that a new law would require the entity to fit smoke filters to its factories within the next year. No such filters have been fitted.

C. A law requires an airline to overhaul its aircraft once every 3 years.

D. Premiums offered to customers.

Answer: D (LEAVE A REPLY)

When premiums are offered to customers, for example, upon redemption of coupons the entity can usually establish that it has a legal present obligation resulting from a past event and that an outflow of economic benefits is probable. Furthermore, if the entity has prior experience with such offers or information about the experience of similar entities, a reliable estimate of the obligation should be feasible. If no obligating event has occurred, the entity could avoid the future expenditure by its future actions.

NEW QUESTION: 26

Which of the following leases ordinarily should be classified as a finance lease by the lessee?

| | Lease A | Lease B | Lease C | Lease D |
|--|---------|---------|---------|---------|
| Contains a bargain purchase option? | Yes | No | No | No |
| Lease term is for the major part of the economic life of the leased asset | No | No | Yes | No |
| Present value of the minimum lease payments is substantially all of the fair value of the leased asset | No | No | No | Yes |
| Leased asset usable only by lessor without major modification | No | Yes | Yes | No |

A. Lease A only

B. Lease B only

C. Leases A, C and D

D. Leases C and D only.

Answer: C (LEAVE A REPLY)

A lease should be classified as a finance lease by a lessee if it transfers substantially all of the risks and rewards of ownership. A lease is classified at its inception. It normally is classified as a finance lease if, for example, 1) the lease provides for the transfer of ownership of the leased asset by the end of the lease term; 2) the lease contains a bargain purchase option, i.e., the lessee has the option to purchase at a price expected to be sufficiently below the fair value of the exercise date that, at the lease's inception, exercise is reasonably certain; 3) the lease term is for the major part of the economic life of the leased asset; 4) the present value of the minimum lease payments is at least substantially all of the fair value of the leased asset at the inception of the lease; or 5) the leased asset is such that it can be used only by the lessee without major modification. Lease A is a finance lease because the terms of the lease include a bargain purchase option. Lease C passes the economic life test, and lease D passes the recovery of investment test.

NEW QUESTION: 27

For the year just ended the entity has times-interest-earned of:

A. 3.375 times

B. 6.75 times

C. 7.75 times

D. 9.5 times

Answer: C (LEAVE A REPLY)

The TIE ratio is a leverage ratio_ It emphasizes the ability to pay interest expense. The ratio equals profit before interest and taxes divided by interest

$$= \frac{(\text{Sales} - \text{CGS} - \text{Administrative Expense} - \text{Depreciation})}{\text{Interest Expense}}$$

$$= \frac{\text{US } \$600,000 - \$400,000 - \$35,000 - \$10,000}{\text{US } \$20,000}$$

$$= 7.75 \text{ times}$$



RST Corporation's Income Statement for Year 5 and Year 6

| | Year 6 | Year 5 |
|-----------------------------|---------------------|---------------------|
| Sales (all are credit) | US \$285,000 | US \$200,000 |
| Cost of goods sold | 150,000 | 120,000 |
| Gross profit | 135,000 | 80,000 |
| S and A expense | 65,000 | 36,000 |
| Profit bef. int. & inc. tax | 70,000 | 44,000 |
| Interest expense | 3,000 | 3,000 |
| Profit before income tax | 67,000 | 41,000 |
| Income tax expense | 27,000 | 16,000 |
| Profit | <u>US \$ 40,000</u> | <u>US \$ 25,000</u> |

| RST Corporation's Balance Sheets End of Year 5 and Year 6 | | |
|---|---------------------|---------------------|
| Assets | Year 6 | Year 5 |
| Current assets | | |
| Cash | US \$ 5,000 | US \$ 4,000 |
| Financial assets held for trading | 3,000 | 2,000 |
| Accounts receivable (net) | 16,000 | 14,000 |
| Inventory | 30,000 | 20,000 |
| Total current assets | <u>54,000</u> | <u>40,000</u> |
| Noncurrent assets: | | |
| Long-term investments | 11,000 | 11,000 |
| PP&E | 80,000 | 70,000 |
| Intangibles | 3,000 | 4,000 |
| Total assets | <u>US \$148,000</u> | <u>US \$125,000</u> |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | US \$ 11,000 | US \$ 7,000 |
| Accrued payables | 1,000 | 1,000 |
| Total current liabilities | 12,000 | 8,000 |
| Bonds payable, 10%, due Year 12 | 30,000 | 30,000 |
| Total liabilities | <u>\$ 42,000</u> | <u>\$ 38,000</u> |
| Equity: | | |
| Ordinary shares, 2,400 shares, US \$10 par | \$ 24,000 | \$ 24,000 |
| Retained earnings | 82,000 | 63,000 |
| Total equity | <u>106,000</u> | <u>87,000</u> |
| Total liabilities and equity | <u>US \$148,000</u> | <u>US \$125,000</u> |

The market value of RST's ordinary stock at the end of Year 6 was US \$100.00 per share.

NEW QUESTION: 28

Which of the following is a risk that is higher when an electronic funds transfer EFT system is used?

- A. Improper change control procedures.
- B. Unauthorized access and activity.
- C. Insufficient online edit checks.
- D. Inadequate back-ups and disaster recovery procedures.

Answer: [\(SHOW ANSWER\)](#)

Unauthorized access to money transfer activities or data is an inherent and unique risk of EFT systems. An unauthorized person may attempt to read, alter, or delete information in data files or to enter authorized fund transfers. Hence, in the financial services industry, protection of confidential customer transactions is especially important. Moreover, unauthorized transfers subject a financial institution to a direct risk of serious loss.

NEW QUESTION: 29

An internal auditor reviewed Finance Department records to obtain a list of current vendor addresses. The auditor then compared the vendor addresses to a record of employee addresses maintained by the Payroll Department. Which of the following types of data analysis did the auditor perform?

- A. Gap analysis
- B. Joining data sources
- C. Duplicate testing.
- D. Classification

Answer: D [\(LEAVE A REPLY\)](#)

NEW QUESTION: 30

The best source of evidence to determine if ex-employees continue to have access to a company's computer systems is:

- A. Discussing the password removal process with the information security officer.
- B. Reviewing computer logs of access attempts.
- C. Reconciling current payroll lists with database access lists.
- D. Reviewing access control software to determine whether the most current version is implemented.

Answer: [\(SHOW ANSWER\)](#)

To determine if ex-employees are accessing the company's computer systems, the auditor should obtain the log showing system access. This log should be compared with current payroll lists to see if anyone not on the payroll is still accessing or is able to access the systems.

NEW QUESTION: 31

Which statement best describes the emphasis of total quality management (TQM)?

- A. Reducing the cost of inspection.
- B. Implementing better statistical quality control techniques.
- C. Doing each job right the first time.
- D. Encouraging cross-functional teamwork.

Answer: C (LEAVE A REPLY)

The basic principles of TQM include (1) doing each job right the first time, (2) being customer oriented, (3) committing the organizational culture to continuous improvement, and (4) building teamwork and employee empowerment.

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NEW QUESTION: 32

Which is the correct order of the following four steps in the accounting cycle?

Step 1 Prepare adjusting journal entries

Step 2 Take a post-closing trial balance

Step 3 Prepare an adjusted trial balance

Step 4 Prepare reversing entries

- A. 1, 3, 2, 4
- B. 4, 1, 3, 2
- C. 3, 1, 2, 4
- D. 1, 2, 3, 4

Answer: A (LEAVE A REPLY)

The accounting cycle may be summarized as consisting of nine steps: record the period's transactions in the appropriate journals, post to the ledger(s) from the journals, prepare an unadjusted trial balance, prepare and post adjusting journal entries, prepare an adjusted trial balance, prepare the financial statements, prepare and post the closing entries take a post-closing trial balance and prepare reversing entries optional). On January 1, a new landscaping firm. Bandit Co. acquired a fleet of vehicles, all the necessary tools and equipment. and a parking and storage facility. It began operations immediately. It is now the end of the first year of operations, and the first set of year-end financial statements are being prepared. Several decisions have to be made regarding the appropriate accounting and reporting practices for this company. Relevant information for several of these items is described in the following list of transactions and events: At year-end. the parking and storage facility that was purchased for US \$150,000 has a fair value of US \$250,000. The physical flow of inventory is first in. first out, and

the cost of materials has risen steadily over the year. To promote sales for the coming year, maintenance contracts were sold in December at very reasonable prices, provided that the customers paid cash. On April 1, the company arranged a US \$100,000, 10% bank loan. Interest payments of US \$5,000 are due on October 1 and April 1 of each year during the 5-year term of the loan. During the first year of operations, the company experienced a 5% bad debt rate on credit sales. None of the bad debts are expected to be recovered, given that 5% is the industry average level of bad debts. Total credit sales for the year were US \$400,000. The year-end balance of accounts receivable includes uncollected overdue accounts of US \$100,000. Half of the uncollected overdue amounts are estimated to be uncollectible.

NEW QUESTION: 33

Residual income is often preferred over return on investment ROI as a performance evaluation because

- A. Residual income is a measure over time while ROI represents the results for a single time period.
- B. Residual income concentrates on maximizing absolute amounts of income rather than a percentage return as with ROI.
- C. The imputed interest rate used in calculating residual income is more easily derived than the target rate that is compared to the calculated ROI.
- D. Average investment is employed with residual income while year-end investment is employed with ROI.

Answer: B (LEAVE A REPLY)

Residual income concentrates on earnings in excess of the minimum desired return. With ROI, a segment may reject a project that exceeds the minimum return if the project will decrease the segment's overall ROI. For example, a project that earns an ROI of 22%, which is greater than the target rate of 20%, might be rejected if the segment is currently earning 25%. because the project will decrease the segments ROI. This would not occur if performance was measured using residual income.

NEW QUESTION: 34

The network below describes the interrelationships of several activities necessary to complete a project. The arrows represent the activities. The numbers between the arrows indicate the number of months to complete each activity. The shortest time to complete the project is:

- A. 5 months.
- B. 6 months.
- C. 8 months.
- D. 14 months.

Answer: C (LEAVE A REPLY)

The longest, or critical, path in the network from node A) to node F) is path A- -D-F. All other paths are shorter than path A-C-D-F, so the activities along those paths can be completed before

the activities along path A-C-D-F. Thus, the shortest time to complete the project is 8 months 3 + 3 + 2).

NEW QUESTION: 35

Technological uncertainty, subsidy, and spin-offs are usually characteristics of:

- A. Declining industries.
- B. Mature industries.
- C. Emerging industries.
- D. Fragmented industries.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 36

International marketing activities often begin with:

- A. Standardization.
- B. Domestic marketing.
- C. Global marketing.
- D. Limited exporting.

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 37

Which of the following is the first step an internal audit activity should undertake when executing a data analytics process'?

- A. Conduct a risk assessment regarding the effectiveness of the data analytics process.
- B. Define the purpose and the anticipated value
- C. Analyze possible and available sources of raw data
- D. Select data for cleaning and normalization procedures.

Answer: (SHOW ANSWER)

NEW QUESTION: 38

In Year 2, a manufacturing company instituted a total quality management (TQM) program producing the following report:

Summary Cost-of-Quality Report (000s)

| | Year 1 | Year 2 | % Change |
|------------------------|-------------------|-------------------|----------|
| Prevention costs | US \$ 200 | US \$ 300 | +50 |
| Appraisal costs | 210 | 315 | +50 |
| Internal failure costs | 190 | 114 | -40 |
| External failure costs | 1,200 | 621 | -48 |
| Total quality costs | <u>US \$1,800</u> | <u>US \$1,350</u> | -25 |

On the basis of this report, which one of the following statements is most likely true?

- A. An increase in prevention and appraisal costs resulted in a higher quality product and therefore resulted in a decrease in failure costs.
- B. An increase in inspection costs was solely responsible for the decrease in quality costs.
- C. Quality costs, such as scrap and rework, decreased by 48%.
- D. Quality costs, such as returns and repairs under warranty, decreased by 40%.

Answer: ([SHOW ANSWER](#))

Prevention and appraisal costs increased substantially, but internal and external failure costs decreased. Thus, the soundest conclusion is that the increase in prevention and appraisal costs resulted in a higher-quality product.

NEW QUESTION: 39

Which of the following computer hardware devices allows for an immediate update of merchandise inventory in a retail environment?

- A. Inventory control terminal.
- B. Monitor.
- C. Video display terminal.
- D. Point-of-sale terminal.

Answer: ([SHOW ANSWER](#))

Point-of-sale terminals capture data by optical scanning or by keying. The data are then transmitted to a CPU. The system permits collection of sales data, updating and ordering of inventory, pricing at the point of sale, and checking of customer credit cards.

NEW QUESTION: 40

The most important component of quality control is:

- A. Ensuring goods and services conform to the design specifications.
- B. Satisfying upper management.
- C. Conforming with ISO-9000 specifications.
- D. Determining the appropriate timing of inspections.

Answer: A ([LEAVE A REPLY](#))

The intent of quality control is to ensure that goods and services conform to the design specifications. Whether the focus is on feed forward, feedback, or concurrent control, the emphasis is on ensuring product or service conformity.

NEW QUESTION: 41

Preference shares are securities with characteristics of both ordinary shares and bonds. Preference shares have <List A> like ordinary shares and <List B> like bonds.

| | List A | List B |
|----|------------------|---------------------------|
| A. | A maturity date | A fixed periodic payment |
| B. | No maturity date | No fixed periodic payment |
| C. | A maturity date | No fixed periodic payment |
| D. | No maturity date | A fixed periodic payment |

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: (SHOW ANSWER)

Like ordinary shares but unlike bonds), preference shares have no maturity date, although certain preference shares (transient preference shares) must be redeemed within a short time (e.g., 5 to 10 years). Like bonds but unlike ordinary shares), preference shares have a fixed periodic payment. The fixed payment is in the form of a stated dividend in the case of the preference shares and interest payments in the case of bonds. However, preference dividends, unlike interest, do not become an obligation unless declared.

NEW QUESTION: 42

If ending inventory is underestimated due to an error in the physical count of items on hand, the cost of goods sold for the period will be =List A> and net earnings will be =List B>.

| | List A | List B |
|----|----------------|----------------|
| A. | Underestimated | Underestimated |
| B. | Underestimated | Overestimated |
| C. | Overestimated | Underestimated |
| D. | Overestimated | Overestimated |

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: C (LEAVE A REPLY)

Cost of goods sold equals beginning inventory, plus purchases, minus ending inventory. If ending inventory is underestimated, cost of goods sold will be overestimated for the period. If cost of goods sold is overestimated, profit for the period will be underestimated.

NEW QUESTION: 43

A working capital technique that increases the payable float and therefore delays the outflow of cash is:

- A. Concentration banking.
- B. A draft.
- C. Electronic Data Interchange EDO.
- D. A lockbox system.

Answer: B (LEAVE A REPLY)

Payment by draft, a three-party instrument in which the drawer orders the drawee to pay money to the payee, is a means of slowing cash outflows. A check is the most common type of draft. Check float arises from the delay between an expenditure and the clearing of the check through the banking system.

NEW QUESTION: 44

An organization's account for office supplies on hand had a balance of \$9,000 at the end of year one. During year two, the organization recorded an expense of \$45,000 for purchasing office supplies. At the end of year two, a physical count determined that the organization has \$11,500 in office supplies on hand. Based on this information, what would be recorded in the adjusting entry at the end of year two?

- A. A debit to office supplies on hand for \$11,500
- B. A debit to office supplies on hand for \$42,500
- C. A debit to office supplies on hand for \$20,500
- D. A debit to office supplies on hand for \$2,500

Answer: D (LEAVE A REPLY)

NEW QUESTION: 45

What is the contribution margin of Division B?

- A. US \$150,000
- B. US \$205,000
- C. US \$235,000
- D. US \$265,000

Answer: D (LEAVE A REPLY)

The contribution margin equals revenue minus variable costs. Thus, Division B's contribution margin is US \$265,000 (\$400,000 sales + \$15,000 other revenue - \$65,000 direct materials - \$40,000 direct labor - \$15,000 variable overhead - \$30,000 variable S&A expense).

NEW QUESTION: 46

Which of the following should not be the responsibility of a database administrator?

- A. Design the content and organization of the database.
- B. Develop applications to access the database.
- C. Protect the database and its software.
- D. Monitor and improve the efficiency of the database.

Answer: B (LEAVE A REPLY)

The database administrator (DBA) is the person who has overall responsibility for developing and maintaining the database. One primary responsibility is for designing the content of the database. Another responsibility of the DBA is to protect and control the database. A third responsibility is to monitor and improve the efficiency of the database. The responsibility of developing applications to access the database belongs to systems analysts and programmers.

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NEW QUESTION: 47

Which of the following should an organization consider when developing strategic objectives for its business processes?

1. Contribution to the success of the organization.
2. Reliability of operational information.
3. Behaviors and actions expected of employees.
4. How inputs combine with outputs to generate activities.

- A. 2 and 4 only
- B. 3 and 4 only
- C. 1 and 3 only
- D. 1 and 2 only

Answer: C (LEAVE A REPLY)

NEW QUESTION: 48

Which of the following is the best program for the protection of a company's vital information resources from computer viruses?

- A. Stringent corporate hiring policies for staff working with computerized functions_
- B. Existence of a software program for virus prevention.
- C. Prudent management policies and procedures instituted in conjunction with technological safeguards.
- D. Physical protection devices in use for hardware, software, and library facilities.

Answer: C (LEAVE A REPLY)

Acceptably safe computing can be achieved by carefully crafted policies and procedures used in conjunction with antivirus and access control software.

NEW QUESTION: 49

A key advantage of developing a computer application by using the prototyping approach is that it:

- A. Allows applications to be portable across multiple system platforms.
- B. Does not require testing for user acceptance.
- C. Better involves users in the design process.

D. Is less expensive since it is self-documenting.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 50

Statistical quality control often involves the use of control charts whose basic purpose is to:

- A. Determine when accounting control procedures are not working.
- B. Control labor costs in production operations.
- C. Detect performance trends away from normal operations.
- D. Monitor internal control applications of information technology.

Answer: ([SHOW ANSWER](#))

Statistical control charts are graphic aids for monitoring the status of any process subject to random variations. The chart consists of three horizontal lines plotted on a horizontal time scale. The vertical scale represents the appropriate quantitative measure. The center line represents the average range or overall mean for the process being controlled. The other two lines are the upper control limit and the lower control limit. The processes are measured periodically, and the values are plotted on the chart. If the value falls within the control limits, no action is taken. If the value falls outside the limits, the process is considered "out of control," and an investigation is made for possible corrective action. Another advantage of the chart is that it makes trends visible.

NEW QUESTION: 51

On what basis is value-added tax collected?

- A. The difference between the value of an entity's sales and the value of its purchases from other domestic entities.
- B. The difference between the selling price of a real estate property and the amount the entity originally paid for the property.
- C. The value of an entity's sales to related companies.
- D. The profit earned on an entity's sales.

Answer: A ([LEAVE A REPLY](#))

A value-added tax (VAT) is collected on the basis of the value created by the entity. This tax is measured by the difference between the value of the entity's sales and the value of its purchases. A VAT is in effect a retail sales tax. Because a consumer can avoid the tax by not purchasing, a VAT encourages saving and discourages consumption.

NEW QUESTION: 52

An organization's headquarters is centrally located and the organization runs numerous computer applications in multiple sites. Which of the following would be the most appropriate approach for conducting an audit of the mainframe computer?

- A. Conduct an individual audit of the mainframe general controls and separate application control audits of the individual applications in a phased manner
- B. Conduct individual audits of each application and include in each audit the general controls of the mainframe relevant to the individual application

C. Conduct a single consolidated audit of both the mainframe general controls and the application controls for all of the applications that use the mainframe

D. Conduct a series of location-based audits that cover both the general and application IT controls an systems across the location

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 53

According to the waterfall cycle approach to systems development, which of the following sequence of events is correct?

A. System requirements, analysis, coding, software design, program design, testing, operations.

B. Program design, system requirements, software design, analysis, coding, testing, operations.

C. System requirements, software design, analysis, program design, coding, testing, operations.

D. System requirements, software design, analysis, program design, testing, coding, operations.

Answer: ([SHOW ANSWER](#)**)**

NEW QUESTION: 54

Organizations use matrix management to accomplish which of the following?

A. To increase lateral communication.

B. To focus better on a single market.

C. To strengthen corporate headquarters.

D. To improve the chain of command.

Answer: ([SHOW ANSWER](#)**)**

NEW QUESTION: 55

What is the number of production runs per year of computer chairs that would minimize the sum of carrying and setup costs for RCF for the coming year?

A. 1

B. 2

C. 4

D. 5

Answer: D ([LEAVE A REPLY](#))

The EOQ minimizes the sum of carrying and setup costs. The EOQ is the amount at which carrying costs are equal to setup costs. Thus, plugging the data into the EOQ formula results in the following:

$$EOQ = \sqrt{\frac{2 \times US \$1,000 \times 5,000}{\$10}} = 1,000 \text{ units}$$

Thus, if each lot consists of 1.000 units, five production runs per year are needed to meet the 5.000-unit demand. At this level, setup costs will total US \$5,000 (5 * \$1.000) Carrying costs will

also equal US \$5,000 (\$10 per unit carrying cost * average inventory of 500 units). Accordingly, total costs are minimized at US\$10,000.

NEW QUESTION: 56

A traditional quality control process in manufacturing consists of mass inspection of goods only at the end of a production process. A major deficiency of the traditional control process is that:

- A. It is expensive to do the inspections at the end of the process.
- B. It is not possible to rework defective items.
- C. It is not 100% effective.
- D. It does not focus on improving the entire production process.

Answer: (SHOW ANSWER)

The process used to produce the goods is not thoroughly reviewed and evaluated for efficiency and effectiveness. Preventing defects and increasing efficiency by improving the production process raises quality standards and decreases costs.

NEW QUESTION: 57

Which of the following controls helps protect externally stored sensitive or confidential data from cyberthreats?

- A. Strong vendor contracts with control reports provided by service organizations.
- B. Firewalls to block unauthorized processing of transactions.
- C. Secure configurations and access controls.
- D. Active and frequent monitoring of network traffic activities.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 58

An example of an internal nonfinancial benchmark is:

- A. The labor rate of comparably skilled employees at a major competitor's plant.
- B. The average actual cost per pound of a specific product at the company's most efficient plant.
- C. A US \$50,000 limit on the cost of employee training programs at each of the company's plants.
- D. The percentage of customer orders delivered on time at the company's most efficient plant.

Answer: D (LEAVE A REPLY)

Benchmarking is a continuous evaluation of the practices of the best organizations in their class and the adaptation of processes to reflect the best of these practices. It requires analysis and measurement of key outputs against those of the best organizations. This procedure also involves identifying the underlying key actions and causes that contribute to the performance difference. The percentage of orders delivered on time at the company's most efficient plant is an example of an internal nonfinancial benchmark.

NEW QUESTION: 59

Electronic commerce (e-commerce) is generally defined as "conducting commercial activities over the Internet." These commercial activities can be all but which of the following?

- A. Business-to-business
- B. Business-to-consumer
- C. Business-to-employee
- D. Consumer-to-business.

Answer: D (LEAVE A REPLY)

These commercial activities can be business-to-business B2B), business-to-consumer (B2C), and business-to-employee B2E). Consumer-to-business is not a commercial activity because it does not originate from a business, therefore, it is not considered part of e-commerce.

NEW QUESTION: 60

Which mindset promotes the most comprehensive risk management strategy?

- A. Increase shareholder value.
- B. Maximize market share.
- C. Improve operational efficiency.
- D. Mitigate losses.

Answer: A (LEAVE A REPLY)

Explanation/Reference:

NEW QUESTION: 61

An airline should recognize revenue from airline tickets in the period when:

- A. Passenger reservations are booked.
- B. B Passenger reservations are confirmed.
- C. Tickets are issued
- D. Related flights occur

Answer: D (LEAVE A REPLY)

Recognition of an element of financial statements income, which includes revenue and gains) requires that two criteria be met. It must be probable that any future economic benefit associated with the item will flow to or from the enterprise, and the cost or value of the item must be measurable with reliability. The usual procedures for income recognition, e.g.. that income be earned, reflect these criteria. Thus, income is recognized when an increase in future economic benefits is associated with an increase in an asset or a decrease in a liability. The recognition criteria are not met with respect to the collections from sales of airline tickets until the receipt of future -gnomic benefits is sufficiently certain. Such certainty exists when the airline performs the contracted-for service, that is, when the related flights occur. The critical event in the earning process for the airline is the delivery of the service to the customer, which occurs when the related flight takes place

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NEW QUESTION: 62

A rapidly expanding retail organization continues to be tightly controlled by its original small management team.

Which of the following is a potential risk in this vertically centralized organization?

- A. Duplication of business activities.
- B. Operational decisions are inconsistent with organizational goals.
- C. Lack of coordination among different business units.
- D. Suboptimal decision-making.

Answer: (SHOW ANSWER)

NEW QUESTION: 63

Which of the following are intermediaries between sellers and buyers?

- I. Agent
- II. Broker
- III. Consignee I. Consumer

- A. I and II only.
- B. I and III only.
- C. I, II, and III only.
- D. I, II, III, and Isl.

Answer: (SHOW ANSWER)

A distribution channel is a series of interdependent marketing institutions that facilitate the transfer of a product from producer seller) to consumer buyer). Intermediaries include merchant middlemen, agents, brokers, consignees, and facilitating intermediaries.

NEW QUESTION: 64

The estimated demand for pretzels at the next home football game using an expected value approach is:

- A. 4,000 pretzels.
- B. 4,400 pretzels.
- C. 5,000 pretzels.
- D. 6,000 pretzels.

Answer: B (LEAVE A REPLY)

The calculation using an expected value approach weights each possible sales volume by its probability. Thus, the estimated demand is 4,400 pretzels.

The College Honor Society sells hot pretzels at the home football games. The pretzels are sold for US \$1.00 each, and the cost per pretzel is U \$.30. Any unsold pretzels are discarded because

they will be stale before the next home game. 95. The estimated demand for pretzel at the next home football game. The frequency distribution of the demand for pretzels pe game is presented as follows.

NEW QUESTION: 65

A widely used approach that managers use to recognize uncertainty about individual items and to obtain an immediate financial estimate of the consequences of possible prediction errors is:

- A. Expected value analysis.
- B. Learning curve analysis.
- C. Sensitivity analysis.
- D. Regression analysis.

Answer: C (LEAVE A REPLY)

Sensitivity analysis determines how a result varies with changes in a given variable or parameter in a mathematical decision model. For example, in a present value analysis, a manager might first calculate the net present value or internal rate of return assuming that a new asset has a 10-year life. The NPV or IRR can then be recalculated using a 5-year life to determine how sensitive the result is to the change in the assumption. An international not for-profit organization finances medical research. The majority of its revenue and support comes from fund-raising activities, investments, and specific grants from an initial sponsoring corporation. The organization has been in operation over 15 years and has a small internal audit department. The organization has just finished a major fundraising drive that raised US \$500 million for the current fiscal period. The following are selected data from recent financial statements US dollar figures in millions):

| | Current Year | Past Year |
|--------------------------------|-----------------|--------------|
| Revenue | US \$500 | US \$425 |
| Investments (average balances) | 210 | 185 |
| Medical research grants made | 418 | 325 |
| Investment income | 16 | 20 |
| Administrative expense | 10 | 8 |

NEW QUESTION: 66

The EOQ (economic order quantity) model calculates the cost-minimizing quantity of a product to order, based on a constant annual demand, carrying costs per unit per annum, and cost per order. For example, the EOQ is approximately 447 units if the annual demand is 10,000 units, carrying costs are US \$1 per item per annum, and the cost of placing an order is US \$10. What will the EOQ be if the demand falls to 5,000 units per annum and the carrying and ordering costs remain at US \$1 and US \$10, respectively?

- A. 316
- B. 447
- C. 483
- D. 500

Answer: A (LEAVE A REPLY)

The ECQ formula is

$$X = (2AD/K)^{1/2}$$

NEW QUESTION: 67

Focusing on customers, promoting innovation, learning new philosophies, driving out fear, and providing extensive training are all elements of a major change in organizations. These elements are aimed primarily at:

- A. Copying leading organizations to better compete with them.
- B. Focusing on the total quality of products and services.
- C. Being efficient and effective at the same time, in order to indirectly affect profits.
- D. Managing costs of products and services better, in order to become the low-cost provider.

Answer: B (LEAVE A REPLY)

TQM is a comprehensive approach to quality. It treats the pursuit of quality as a basic organizational function that is as important as production or marketing. TQM is the continuous pursuit of quality in every aspect of organizational activities through a philosophy of doing it right the first time, employee training and empowerment, promotion of teamwork, improvement of processes, and attention to satisfaction of customers, both internal and external. TQM emphasizes the supplier's relationship with the customer, identifies customer needs, and recognizes that everyone in a process is at some time a customer or supplier of someone else, either inside or outside of the organization.

NEW QUESTION: 68

According to MA guidance, which of the following best describes an adequate management (audit) trail application control for the general ledger?

- A. Report identifying data that is outside of system parameters
- B. Report confirming that the general ledger data was processed without error.
- C. Report comparing processing results with original input
- D. Report identifying general ledger transactions by time and individual

Answer: (SHOW ANSWER)

NEW QUESTION: 69

Which of the following is not required when ISO 9000 standards are adopted?

- A. Organization of a quality management system.
- B. Creation of an internal audit system.
- C. Consistent high quality products.
- D. On-site inspections by a registrar.

Answer: (SHOW ANSWER)

ISO 9000 is a set of generic standards for establishing and maintaining a quality system within a company. The standards provide no basis for judging the quality of the end product.

The marketplace it will make this determination on its own. The objective of ISO 9000 standards is to ensure consistent quality.

NEW QUESTION: 70

What is RST's current ratio at the end of Year 6?

- A. 4.5 to 1
- B. 2.4 to 1
- C. 2.0 to 1
- D. 1.5 to 1

Answer: A (LEAVE A REPLY)

The current ratio equals current assets divided by current liabilities. At the end of Year 6, it was 4.5 (54,000 / 12,000). RST Corporation's Income Statement for Year 5 and Year 6

| | Year 6 | Year 5 |
|-----------------------------|---------------------|---------------------|
| Sales (all are credit) | US \$285,000 | US \$200,000 |
| Cost of goods sold | 150,000 | 120,000 |
| Gross profit | 135,000 | 80,000 |
| S and A expense | 65,000 | 36,000 |
| Profit bef. int. & inc. tax | 70,000 | 44,000 |
| Interest expense | 3,000 | 3,000 |
| Profit before income tax | 67,000 | 41,000 |
| Income tax expense | 27,000 | 16,000 |
| Profit | <u>US \$ 40,000</u> | <u>US \$ 25,000</u> |

RST Corporation's Balance Sheets End of Year 5 and Year 6

| <u>Assets</u> | Year 6 | Year 5 |
|-----------------------------------|---------------|---------------|
| Current assets | | |
| Cash | US \$ 5,000 | US \$ 4,000 |
| Financial assets held for trading | 3,000 | 2,000 |
| Accounts receivable (net) | 16,000 | 14,000 |
| Inventory | 30,000 | 20,000 |
| Total current assets | <u>54,000</u> | <u>40,000</u> |

Noncurrent assets:

| | | |
|-----------------------|---------------------|---------------------|
| Long-term investments | 11,000 | 11,000 |
| PP&E | 80,000 | 70,000 |
| Intangibles | 3,000 | 4,000 |
| Total assets | <u>US \$148,000</u> | <u>US \$125,000</u> |

Liabilities and Equity

Current liabilities:

| | | |
|---------------------------------|------------------|------------------|
| Accounts payable | US \$ 11,000 | US \$ 7,000 |
| Accrued payables | 1,000 | 1,000 |
| Total current liabilities | 12,000 | 8,000 |
| Bonds payable, 10%, due Year 12 | 30,000 | 30,000 |
| Total liabilities | <u>\$ 42,000</u> | <u>\$ 38,000</u> |

Equity:

| | | |
|--|---------------------|---------------------|
| Ordinary shares, 2,400 shares, US \$10 par | \$ 24,000 | \$ 24,000 |
| Retained earnings | 82,000 | 63,000 |
| Total equity | <u>106,000</u> | <u>87,000</u> |
| Total liabilities and equity | <u>US \$148,000</u> | <u>US \$125,000</u> |

NEW QUESTION: 71

A manufacturing company is attempting to implement a just-in-time (JIT) purchase policy system by negotiating with its primary suppliers to accept long-term purchase orders which result in more frequent deliveries of smaller quantities of raw materials. If the JIT purchase policy is successful

in reducing the total inventory costs of the manufacturing company, which of the following combinations of cost changes would be most likely to occur?

| Cost Category to Increase | Cost Category to Decrease |
|------------------------------|------------------------------|
| A. Purchasing costs | Stockout costs |
| B. Purchasing costs | Quality costs |
| C. Quality costs | Ordering costs |
| D. Stockout costs | Carrying costs |

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: D (LEAVE A REPLY)

The objective of a JIT system is to reduce carrying costs by eliminating inventories and increasing the deliveries made by suppliers. Ideally, shipments are received just in time to be incorporated into the manufacturing process. This system increases the risk of stock out costs because the inventory buffer is reduced or eliminated.

NEW QUESTION: 72

Systems development audit engagements include reviews at various points to ensure that development is properly controlled and managed. The reviews should include all of the following except:

- A. Conducting a technical feasibility study on the available hardware, software, and technical resources
- B. Examining the level of user involvement at each stage of implementation.
- C. Verifying the use of controls and quality assurance techniques for program development, conversion, and testing.
- D. Determining if system, user, and operations documentation conforms to formal standards.

Answer: A (LEAVE A REPLY)

The technical feasibility study is conducted by IT professionals, not internal auditors.

NEW QUESTION: 73

Which of the following would Batchelder most likely use as a hash total?

- A. FG HK80
- B. 4
- C. 204
- D. 810

Answer: D (LEAVE A REPLY)

Input controls in batch computer systems are used to determine that no data are lost or added to the batch. Depending on the sophistication of a particular system, control may be accomplished by using record counts, batch totals, or hash totals. The hash total is a control total without a defined meaning, such as the total of employee numbers or invoice numbers, that is used to

verify the completeness of data. The hash total of the invoice numbers is 810. Batch elder Company has the following invoices in a batch:

| <u>Invoice Number</u> | <u>Product</u> | <u>Quantity</u> | <u>Unit Price</u> |
|-----------------------|----------------|-----------------|-------------------|
| 201 | F10 | 150 | \$ 5.00 |
| 202 | G15 | 200 | 10.00 |
| 203 | H20 | 250 | 25.00 |
| 204 | K35 | 300 | 30.00 |

NEW QUESTION: 74

Within an enterprise, IT governance relates to the:

1. Alignment between the enterprise's IT long term plan and the organization's objectives.
2. Organizational structures of the company that are designed to ensure that IT supports the organization's strategies and objectives.
3. Operational plans established to support the IT strategies and objectives.
4. Role of the company's leadership in ensuring IT supports the organization's strategies and objectives.

- A. 2, 3, and 4 only
B. 1 and 2 only
C. 3 and 4 only
D. 1, 2, and 4 only

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 75

Which of the following is a role of the board of directors in the governance process?

- A. Obtain assurance concerning the effectiveness of the organization's governance systems.
B. Review and approve operational goals and objectives.
C. Conduct periodic assessments of the organization's governance systems.
D. Implement an effective system of internal controls to support the organization's governance systems.

Answer: ([SHOW ANSWER](#)**)**

NEW QUESTION: 76

Which of the following is false with regard to Internet connection firewalls?

- A. Firewalls can protect against computer viruses.
B. Firewalls monitor attacks from the Internet.
C. Firewalls provide network administrators tools to retaliate against hackers.
D. Firewalls may be software-based or hardware-based.

Answer: A ([LEAVE A REPLY](#))

Explanation/Reference:

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NEW QUESTION: 77

The immediate goal of a theory of constraints (TOC) analysis is to:

- A. Maximize the efficiency of the entire production process.
- B. Minimize direct materials cost.
- C. Maximize contribution margin through the constraint.
- D. Smooth production flow to eliminate backup in the system.

Answer: C (LEAVE A REPLY)

A basic principle of TOC analysis is that short-term profit maximization requires maximizing the contribution margin through the constraint, called the throughput margin or throughput contribution.

NEW QUESTION: 78

An entity has US \$100 of current assets, US \$100 of fixed assets, US \$100 of debt, and US \$100 of equity. If it then leases a US \$75 asset in a(n) ,List A, lease agreement, the debt-to-assets ratio of the entity will be <List B>

| | List A | List B |
|----|-----------|--------|
| A. | Operating | 64% |
| B. | Operating | 00% |
| C. | Finance | 50% |
| D. | Finance | 64% |

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: D (LEAVE A REPLY)

If the lease is a finance lease, both the asset and the obligation for future payments are recorded. The entity would have current assets of US \$100, debt of US \$175(\$100 + \$75), fixed assets of US \$175(\$100 + 175), and equity of US \$100. Hence, the debt-to-assets ratio would be 64%(US \$175 / 275).

NEW QUESTION: 79

Refer to the exhibit.

| | Company A | Company B |
|-------------------------|-----------|-----------|
| Cash | \$100 | \$200 |
| Accounts receivable | unknown | \$100 |
| Accounts payable | \$100 | \$50 |
| Long-term debt | \$200 | \$50 |
| Sales | \$600 | \$5,800 |
| Cost of goods sold | \$300 | \$5,000 |
| Administrative expenses | \$100 | \$500 |
| Depreciation expense | \$100 | \$100 |
| Interest expense | \$20 | \$10 |

Presented below are partial year-end financial statement data (000 omitted from dollar amounts) for companies A and B:

If company A has a quick ratio of 2:1, then it has an accounts receivable balance of:

- A. \$300
- B. \$500
- C. \$100
- D. \$200

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 80

In performing an audit, you encounter an adjusting journal entry recorded at year-end that contains a debit to rental revenue and a credit to deferred rental revenue. The purpose of this journal entry is to record?

- A. An accrued revenue
- B. An unexpired expense
- C. An expired expense
- D. A liability

Answer: D ([LEAVE A REPLY](#))

A deferred revenue is a revenue item that has been received but has not met the recognition criteria. The journal entry described in the question is an adjusting entry to transfer an amount from the revenue account to a liability (deferred revenue) account. The initial collection of cash in advance from the tenant was apparently recorded by a credit to revenue. An adjusting entry is required at year-end to transfer any remaining amount that does not qualify for revenue recognition.

NEW QUESTION: 81

In reconciling profit on an accrual basis to net cash from operating activities, what adjustment is needed to profit because of an increase during the period in prepaid expenses and 2) the periodic amortization of premium on bonds payable?

| | (1) Increase in Prepaid Expenses | Amortization of Premium on Bonds Payable |
|----|--|---|
| A. | Add | Add |
| B. | Add | Deduct |
| C. | Deduct | Add |
| D. | Deduct | Deduct |

- A. Add Add
- B. Add Deduct
- C. Deduct Add
- D. Deduct Deduct

Answer: D (LEAVE A REPLY)

An increase in prepaid expenses indicates that cash outlays for expenses exceeded the related expense incurred, thus, profit exceeded net cash from operating activities, and a deduction is needed in the reconciliation. Also, the amortization of premium on bonds payable causes a reduction of interest expense but does not increase cash; therefore, profit exceed net cash from operating activities, and a deduction is needed in the reconciliation. Balance sheets on December 31, Year 1, and December 31, Year 2, are presented below:

| | Dec. 31, Year 1 | Dec. 31, Year 2 | Liabilities and equity: | |
|--------------------------------------|----------------------|----------------------|---|----------------------------------|
| Assets: | | | Trade accounts payable | US \$ 62,000 US \$ 49,000 |
| Cash | US \$ 50,000 | US \$ 60,000 | Interest payable | 8,000 11,000 |
| Accounts receivable | 95,000 | 89,000 | Bonds payable | 200,000 200,000 |
| Allowance for uncollectible accounts | (4,000) | (3,000) | Unamortized bond discount | (15,000) (10,000) |
| Inventory | 120,000 | 140,000 | Equity | 199,000 257,000 |
| Property, plant, and equipment | 295,000 | 340,000 | Total liabilities and equity | US \$454,000 US \$507,000 |
| Accumulated depreciation | (102,000) | (119,000) | Additional information for Year 2: | |
| Total Assets | US \$ 454,000 | US \$ 507,000 | 1. Cash payments to suppliers of merchandise were US \$180,000. | |
| | | | 2. Sales revenue was US \$338,000. | |
| | | | 3. US \$3,000 of accounts receivable was written off. | |
| | | | 4. Equipment was acquired for US \$65,000. | |
| | | | 5. Depreciation expense was US \$30,000. | |
| | | | 6. Interest expense was US \$20,000. | |

NEW QUESTION: 82

CORRECT TEXT

Simulation, a widely used technique in decision modeling, is a(n):

- A. Inventory management model that is used to calculate the optimum order quantity.
- B. Technique used to separate costs into fixed and variable portions.
- C. Process of modeling whereby real activities are represented in mathematical or other form.
- D. Technique used to pinpoint random deviations in industrial processes and other repetitive operations.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 83

A perpetual inventory system uses a minimum quantity on hand to initiate purchase ordering procedures for restocking. In reviewing the appropriateness of the minimum quantity level established by the stores department, the internal auditor is least likely to consider:

- A. Stock out costs, including lost customers.
- B. Seasonal variations in forecasting inventory demand.

- C. Optimal order sizes determined by the economic order quantities model.
- D. Available storage space and potential obsolescence.

Answer: ([SHOW ANSWER](#))

The basic economic order quantity (EOQ) model is based on the following variables: demand, variable cost per purchase order, and variable unit carrying cost. Thus, minimum stocking levels do not affect the EOQ.

NEW QUESTION: 84

Which of the following statements about mentoring is true?

1. Mentoring can be used effectively for increasing employee retention
2. Mentoring can be used effectively in reducing employees frustration.
3. Mentoring can be used effectively for increasing organization communication.
4. Mentoring can be used effectively as a short term activity consisting of instruction and training

- A. 1, 2 and 4 only
- B. 1,2, 3, and 4
- C. 1, 2, and 3 only.
- D. 1, 3, and 4 only.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 85

What language interface would a database administrator use to establish the structure of database tables?

- A. Data definition language.
- B. Data control language.
- C. Data manipulation language.
- D. Data query language.

Answer: A ([LEAVE A REPLY](#))

The schema is a description of the overall logical structure of the database using data definition language DDL), which is the connection between the logical and physical structure of the database. DDL is used to define, or determine, the database.

NEW QUESTION: 86

On May 1, Year 1, an entity issued, at 103 plus accrued interest, 500 of its 12%, US \$1,000 bonds. The bonds are dated January 1, Year 1, and mature on January 1, Year 6. Interest is payable semiannually on January 1 and July 1. The journal entry to record the issuance of the bonds and the receipt of the cash proceeds is

| | | |
|--------------------------|--------------|--------------|
| A. Cash | US \$515,000 | |
| Interest payable | 20,000 | |
| Bonds payable | | US \$500,000 |
| Premium on bonds payable | | 35,000 |
| B. Cash | US \$525,000 | |
| Bonds payable | | US \$500,000 |
| Premium on bonds payable | | 15,000 |
| Interest payable | | 10,000 |
| C. Cash | US \$535,000 | |
| Bonds payable | | US \$500,000 |
| Premium on bonds payable | | 15,000 |
| Interest payable | | 20,000 |
| D. Cash | US \$535,000 | |
| Bonds payable | | US \$500,000 |
| Premium on bonds payable | | 35,000 |

A. Option A

B. Option B

C. Option C

D. Option D

Answer: C (LEAVE A REPLY)

The face amount of the 500 bonds is equal to US \$500,000 (500 x \$1,000). The cash proceeds excluding interest from the issuance of the bonds are US \$515,000 (\$500,000 + 103%). The US \$15,000 premium is the difference between the cash issuance proceeds and the face amount of the bonds. Because the bonds were issued between interest payment dates, the issuer is also entitled to receive accrued interest for the 4 months between the prior interest date and the issuance date. The accrued interest is US \$20,000 [500 bonds x \$1,000 face value 12% stated rate x 4 - 12)]. The issuing entity will therefore receive US \$535,000 in cash (\$515,000 + \$20,000). The resulting journal entry includes a US \$535,000 debit to cash, a US \$500,000 credit to bonds payable, a US \$15,000 credit to premium, and a US \$20,000 credit to either interest payable or interest.

NEW QUESTION: 87

An entity offers its customers credit terms of a 2% discount if paid within 10 days or the full balance is due within 30 days (2/10, n/30). If some customers take advantage of the cash discount and others do not, which of the following accounts will appear on the income statement if the net method of recording receivables is employed?

Sales Discounts

Sales Discounts Forfeited

A. Yes Yes

B. Yes No

C. No No

D. No Yes

Answer: D (LEAVE A REPLY)

The gross method accounts for receivables at their face amount. If a discount is taken a sales discount is recorded and classified as an offset to sales in the income statement to yield net

sales. The net method records receivables net of the applicable discount. If the payment is not received during the discount period, an interest revenue account, such as sales discounts forfeited is credited at the end of the discount period or when the payment is received. Accordingly, the application of the net method requires a sales discount forfeited but not a sales discount account.

NEW QUESTION: 88

In terms of international business strategy, which of the following is true regarding a multi-domestic strategy?

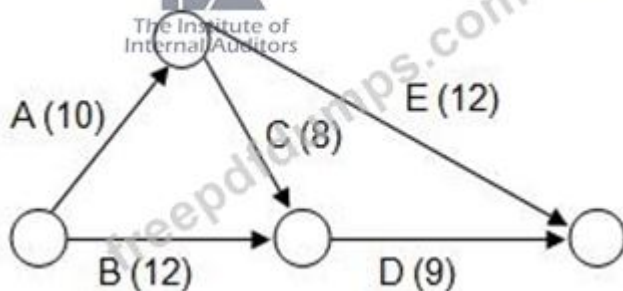
- A. It is an effective strategy when large differences exist between countries.
- B. It uses the same products in all countries.
- C. It centralizes control with little decision-making authority given to the local level.
- D. It provides cost advantages, improves coordinated activities, and speeds product development.

Answer: **A** ([LEAVE A REPLY](#))

NEW QUESTION: 89

Refer to the exhibit.

Project Network (Activity Times in Days)



The figure below shows the network diagram for the activities of a large project. What is the shortest number of days in which the project can be completed?

- A. 27 days.
- B. 21 days.
- C. 22 days.
- D. 51 days.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 90

Which of the following techniques is the most relevant when an internal auditor conducts a valuation of an organization's physical assets?

- A. Original cost.
- B. Inspection.
- C. Vouching.

D. Observation.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 91

An electronic meeting conducted between several parties at remote sites is referred to as:

- A. Teleprocessing.
- B. Interactive processing.
- C. Telecommuting.
- D. Teleconferencing.

Answer: ([SHOW ANSWER](#))

Conducting an electronic meeting among several parties at remote sites is teleconferencing. It can be accomplished by telephone or electronic mail group communication software. Videoconferencing permits the conferees to see each other on video screens. The practice has grown in recent years as companies have attempted to cut their travel costs.

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NEW QUESTION: 92

Quality cost indices are often used to measure and analyze the cost of maintaining a given level of quality. One example of a quality cost index, which uses a direct labor base, is computed as Based upon these costs data, the quality cost index:

| | May | June |
|------------------------|-------------|-------------|
| Prevention costs | US \$ 4,000 | US \$ 5,000 |
| Appraisal costs | 6,000 | 5,000 |
| Internal failure costs | 12,000 | 15,000 |
| External failure costs | 14,000 | 11,000 |
| Direct labor costs | 90,000 | 100,000 |

- A. Decreased four points from May to June.
- B. Was unchanged from May to June.
- C. Increased 10 points from May to June.
- D. Decreased 10 points from May to June.

Answer: A ([LEAVE A REPLY](#))

The index for May was $[\text{US } \$4,000 + \$6,000 + \$12,000 + \$14,000] - \$90,000$, and the index for June was 6% $[\text{US } \$5,000 + \$5,000 + \$15,000 + \$-11,000] - \$100,000$.

NEW QUESTION: 93

Which of the following statements is true regarding reversing entries in an accounting cycle?

- A. Reversing entries are identical to the adjusting entries made in the previous period.
- B. Reversing entries are the exact opposite of the adjustments made in the previous period.
- C. Reversing entries should be completed at the end of the next accounting period after recording regular transactions of the period
- D. Reversing all previous closing adjustments is a mandatory step in the accounting cycle

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 94

Which of the following is false with regard to Internet connection firewalls?

- A. Firewalls may be software-based or hardware-based.
- B. Firewalls monitor attacks from the Internet.
- C. Firewalls can protect against computer viruses.
- D. Firewalls provide network administrators tools to retaliate against hackers.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 95

What are the objectives of governance as defined by the Standards?

- A. Organize, assign, authorize, and implement.
- B. Inform, direct, manage, and monitor.
- C. Identify, assess, manage, and control.
- D. Add value, improve, assure, and conform.

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 96

Which of the following financial statement analyses is most useful in determining whether the various expenses of a given entity are higher or lower than industry averages?

- A. Horizontal.
- B. Vertical.
- C. Activity ratio.
- D. Defensive-interval ratio.

Answer: B ([LEAVE A REPLY](#))

Vertical analysis is the expression of each item on a financial statement in a given period in relation to a base figure. On the income statement, each item is stated as a percentage of sales. Thus, the percentages for the entity in question can be compared with industry norms.

NEW QUESTION: 97

If bonds are initially sold at a discount and the effective-interest method of amortization is used:

- A. Interest expense in the earlier periods will be less than interest expense in the later periods.
- B. Interest expense in the earlier periods will be greater than interest expense in the later periods.
- C. Interest expense will equal the cash interest payment each period.
- D. Interest expense will be less than the cash interest payment each period.

Answer: A (LEAVE A REPLY)

Interest expense equals the carrying amount of the liability at the beginning of the period times the effective interest rate. The carrying amount of the liability equals the face amount of the bond minus the discount. As the discount is amortized over the life of the bond, the carrying amount increases. Consequently, the interest expense increases over the term of the bond.

NEW QUESTION: 98

A new advertising agency serves a wide range of clients including manufacturers, restaurants, service businesses, department stores, and other retail establishments. The accounting system the advertising agency has most likely adopted for its record keeping in accumulating costs is:

- A. Job-order costing.
- B. Operation costing.
- C. Relevant costing.
- D. Process costing.

Answer: A (LEAVE A REPLY)

Job-order costing is used by organizations whose products or services are readily identified by individual units or batches. The advertising agency accumulates its costs by client. Job-order costing is the most appropriate system for this type of nonmanufacturing firm.

NEW QUESTION: 99

Consumer protection regulations have resulted in all of the following except

- A. Food label laws requiring a list of ingredients and nutritional data.
- B. Product safety laws that establish the liability of producers of unsafe or defective products.
- C. Rules allowing the award of monetary damages to persons injured by false and misleading advertising.
- D. Truth-in-lending requirements that lenders must identify the total dollars to be paid by the borrower over the term of the loan.

Answer: C (LEAVE A REPLY)

Statutes often provide for regulation of the matters listed in a), b), and d) respectively.

To date, no legislation allows the award of monetary damages to persons injured by false and misleading advertising. However, laws may prohibit unfair or deceptive acts in commerce including false or misleading advertising.

NEW QUESTION: 100

The head of the research and development department at a manufacturing organization believes that his team lacks expertise in some areas, and he decides to hire more experienced

researchers to assist in the development of a new product. Which of the following variances are likely to occur as the result of this decision?

1. Favorable labor efficiency variance.
2. Adverse labor rate variance.
3. Adverse labor efficiency variance.
4. Favorable labor rate variance.

- A.** 2 and 3.
B. 1 and 4.
C. 3 and 4.
D. 1 and 2.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 101

Managers at a consumer products company purchased personal computer software from only recognized vendors and prohibited employees from installing nonauthorized software on their personal computers. To minimize the likelihood of computer viruses infecting any of its systems, the company should also:

- A.** Restore infected systems with authorized versions.
B. Recompile infected programs from source code backups.
C. Institute program change control procedures.
D. Test all new software on a stand-alone personal computer.

Answer: D (LEAVE A REPLY)

Software from recognized sources should be tested in quarantine for example, in a test development machine or a stand-alone personal computer) because even vendors applied software may be infected with viruses. The software should be run with a vaccine program and tested for the existence of logic bombs, etc.

NEW QUESTION: 102

The cost of materials has risen steadily over the year. Which of the following methods of estimating the ending balance of the materials inventory account will result in the highest profit assuming all other variables remain constant?

- A.** Last-in, first-out LIFO
B. First-in, first-out FIFO
C. Weighted average
D. Specific identification

Answer: B (LEAVE A REPLY)

Profit will be higher when cost of goods sold is lower. other factors held constant. Cost of goods sold equals beginning inventory. plus purchases. minus ending inventory. Accordingly, cost of goods sold will be lowest when the ending inventory is highest.

Ending inventory is highest under FIFO because the older, less expensive items are deemed to have been sold, leaving the more expensive items in the ending !inventory.

NEW QUESTION: 103

On September 22, Year 1, a corporation purchased merchandise from an unaffiliated foreign entity for 10,000 units of the foreign entity's local currency. On that date, the spot rate was US \$.55. The corporation paid the bill in full on March 20, Year 2, when the spot rate was US \$.65. The closing rate was US \$.70 on December 31, Year 1. What amount should the corporation report as a foreign currency transaction loss in its income statement for the year ended December 31, Year 1?

- A. US \$0
- B. US \$500
- C. US \$1,000
- D. US \$1,500

Answer: D (LEAVE A REPLY)

A receivable or payable fixed in a foreign currency is adjusted to its current exchange rate at each balance sheet date. The resulting gain or loss should ordinarily be included in determining profit or loss. It is the difference between the spot rate on the date the transaction originates or the rate applied in the prior year) and the closing rate. Thus, the Year 1 transaction loss for Yumi Corp. is US \$1,500 [10,000 units(\$0.55 - \$0.70)].

NEW QUESTION: 104

To avoid invalid data input, a bank added an extra number at the end of each account number and subjected the new number to an algorithm. This technique is known as:

- A. Sequence check.
- B. A check digit.
- C. Cross-footing.
- D. Field check.

Answer: (SHOW ANSWER)

Self-checking digits may be used to detect incorrect identification numbers. A check digit is an extra reference number that follows an identification code and bears a mathematical relationship to the other digits. The extra digit is input with the data. The identification code can be subjected to an algorithm and compared to the check digit.

NEW QUESTION: 105

What is the percentage of the total variance that can be explained by the regression?

- A. 99.724%
- B. 69.613%
- C. 80.982%
- D. 99.862%

Answer: (SHOW ANSWER)

The coefficient of determination (r^2) measures the percentage of the total variance in cost that can be explained by the regression equation. If the coefficient of determination is .99724, 99.724% of the variance is explained by the regression equation. Thus, the values in the regression equation explain virtually the entire amount of total cost.

NEW QUESTION: 106

A plumbing company, a wholesale distributor, supplies plumbing contractors and retailers throughout the Northeast on a next-day delivery basis. The company has a centrally located warehouse to accept receipts of plumbing supplies. The warehouse has a single dock to accept and unload railroad freight cars during the night. It takes 5 hours to unload each freight car. The company's prior records indicate that the number of freight cars that arrive in the course of a night range from zero to five or more, with no indicated pattern of arrivals. If more than two freight cars arrive on the same night, some freight must be held until the next day for unloading. The company wants to estimate the wait time when more than two freight cars arrive in the same night. The appropriate technique to analyze the arrival of freight cars is

- A. Integer programming.
- B. Linear programming.
- C. Monte Carlo simulation.
- D. Regression analysis.

Answer: C (LEAVE A REPLY)

The Monte Carlo simulation method is often used to generate the individual values for a random variable. The performance of a quantitative model under uncertainty may be investigated by randomly selecting values for each variable in the model based on the probability distribution of each variable) and then calculating the value of the solution. If this process is performed many times, the distribution of results from the model will be obtained.

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NEW QUESTION: 107

An organization has recorded the following profit and expenses: Profit before interest and tax \$200,000

Sales \$2,300,000

Purchases of materials \$700,000

Interest expenses \$30,000

If the value-added tax (VAT) rate is 20 percent and the corporate tax rate is 30 percent, which of the following is the amount of VAT that the organization has to pay?

- A. \$51,000
- B. \$60,000

C. \$320,000

D. \$34,000

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 108

What is the most significant potential problem introduced by just-in-time inventory systems?

A. They prevent manufacturers from scaling up or down to meet changing demands.

B. They are susceptible to supply-chain disruptions.

C. They require significant computer resources.

D. They require complicated materials-supply contracts.

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 109

A bank has changed from a system in which lines are formed in front of each teller to a one-line, multiple-server system. When a teller is free, the person at the head of the line goes to that teller. Implementing the new system will:

A. Decrease the bank's wage expenses because the new system uses fewer tellers.

B. Decrease time customers spend in the line.

C. Increase accuracy in teller reconciliations at the end of the day because fewer customers are served by each teller.

D. Improve on-the-job training for tellers because each will perform different duties.

Answer: B ([LEAVE A REPLY](#))

When all customers must wait in a single queue, a decrease in waiting time is possible given multiple servers. An added effect is to increase customer satisfaction.

NEW QUESTION: 110

Which of the following is not a component of physical distribution?

A. Transportation.

B. Pricing.

C. Location of retail outlets.

D. Warehousing.

Answer: ([SHOW ANSWER](#))

Physical distribution market logistics) involves planning, implementing, and controlling the movement of materials and final goods to meet customer needs while earning a profit.

Physical distribution systems coordinate suppliers, purchasing agents, marketers, channels, and customers. They include warehousing, transportation, and retail outlets.

NEW QUESTION: 111

An internal auditor is trying to assess control risk and the effectiveness of an organization's internal controls. Which of the following audit procedures would not provide assurance to the auditor on this matter?

- A. Inspecting manuals and documents.
- B. Interviewing the organization's employees.
- C. Reading the board's minutes.
- D. Observing the organization's operations.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 112

Which of the following e-commerce audit protocol items relates to the area of fraud?

- A. Segregation of duties.
- B. Inadequacies in interfacing between e-commerce and financial management systems.
- C. Examination of service level agreements between buyer, supplier, and certification authority.
- D. Denial of orders placed or received, goods received, or payments made.

Answer: D (LEAVE A REPLY)

With regard to the e-commerce audit protocol in the area of fraud, the internal auditor should be alert for the following conditions:

Unauthorized movement of money e.g., transfers to jurisdictions where the recovery of funds would be difficult).

Duplication of payments.

Denial of orders placed or received, goods received, or payments made.

Exception reports and procedures, and effectiveness of the follow up.

Digital signatures: Are they used for all transactions Who authorizes them Who has access to them Protections against viruses and hacking activities history file use of tools).

Access rights Are they reviewed regularly Are they promptly revised when staff members are changed?

History of interception of transactions by unauthorized persons.

NEW QUESTION: 113

An organization had three large centralized divisions: one that received customer orders for service work; one that scheduled the service work at customer locations; and one that answered customer calls about service problems. These three divisions were restructured into seven regional groups, each of which performed all three functions. One advantage of this restructuring would be:

- A. Increased specialization.
- B. Greater economies of scale.
- C. Improved work flow.
- D. Better internal controls.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 114

In Year 2, a manufacturing company instituted a total quality management (TQM) program producing the following report:

| Summary Cost of Quality Report (000s) | | | | | |
|---------------------------------------|--------|-------|--------|-------|----------|
| | Year 1 | | Year 2 | | % Change |
| Prevention costs | US \$ | 200 | US \$ | 300 | +50 |
| Appraisal costs | | 2100 | | 315 | +50 |
| Internal failure costs | | 190 | | 114 | -40 |
| External failure costs | | 1,200 | | 621 | -48 |
| Total quality costs | US \$ | 1,800 | US \$ | 1,350 | -25 |

On the basis of this report, which one of the following statements is most likely true?

- A. An increase in conformance costs resulted in a higher quality product and therefore resulted in a decrease in nonconformance costs.
- B. An increase in inspection costs was solely responsible for the decrease in quality costs.
- C. Quality costs, such as scrap and rework, decreased by 48%.
- D. Quality costs, such as returns and repairs under warranty, decreased by 40%.

Answer: (SHOW ANSWER)

TQM emphasizes the supplier's relationship with the customer and recognizes that everyone in a process is at some time a customer or supplier of someone else, either within or outside the organization. The costs of quality include costs of conformance and costs of nonconformance. Costs of conformance include prevention costs and appraisal (inspection) costs. Nonconformance costs are composed of internal failure costs and external failure costs, such as lost opportunity. Conformance costs (prevention and appraisal) increased substantially, whereas the nonconformance costs (internal and external failure) decreased. Hence, the increase in conformance costs resulted in a higher-quality product.

NEW QUESTION: 115

What is the method of presenting a noncontrolling interest in a consolidated balance sheet?

- A. As a separate item within the deferred credits section.
- B. As a deduction from contra to goodwill from consolidation if any.
- C. By means of notes to the balance sheet.
- D. As a separate item within the equity section.

Answer: D (LEAVE A REPLY)

A noncontrolling interest is classified as an equity account and separated from the equity of majority shareholders within that section.

NEW QUESTION: 116

A call option on an ordinary share is more valuable when there is a lower:

- A. Market value of the underlying share.
- B. Exercise price on the option.
- C. Time to maturity on the option.
- D. Variability of market price on the underlying share.

Answer: B (LEAVE A REPLY)

The lower the exercise price, the more valuable the call option. The exercise price is the price at which the call holder has the right to purchase the underlying share.

NEW QUESTION: 117

On March 15, Year 1 Kathleen Corp. adopted a plan to accumulate US \$1,000,000 by September 1 Year 5 Kathleen plans to make four equal annual deposits to a fund that will earn interest at 10% compounded annually. Kathleen made the first deposit on September 1, Year 1. Future value and future amount factors are as follows:

Future value of US \$1 at 10% for four periods 1.46

Future amount of ordinary annuity of US \$1 at 10% for four periods 4.64

Future amount of annuity in advance of US \$1 at 10% for four periods 5.11

Kathleen should make four annual deposits rounded of

- A. US \$250,000
- B. US \$215,500
- C. US \$195,700
- D. US \$684,930

Answer: (SHOW ANSWER)

The depositor wishes to have US \$1,000,000 at the end of a 4-year period from 9/1 r 1 to 9/11Yr 5). The amount will be generated from four equal annual payments (an annuity) to be made starting at the beginning of the 4-year period. The annual payment for this annuity can be calculated advance by dividing the desired future amount of US \$1,000,000 by the factor for the future amount of an amount in advance of US \$1 at 10% for four periods. Each annual deposit should therefore equal $\frac{\$1,000,000}{5.11}$.

NEW QUESTION: 118

An assembly plant accumulates its variable and fixed manufacturing overhead costs in a single cost pool, which is then applied to work in process using a single application base.

The assembly plant management wants to estimate the magnitude of the total manufacturing overhead costs for different volume levels of the application activity base using a flexible budget formula. If there is an increase in the application activity base that is within the relevant range of activity for the assembly plant, which one of the following relationships regarding variable and is true?

- A. The variable cost per unit is constant, and the total fixed costs decrease.
- B. The variable cost per unit is constant, and the total fixed costs increase.
- C. The variable cost per unit and the total fixed costs remain constant.
- D. The variable cost per unit increases and the total fixed costs remain constant.

Answer: C (LEAVE A REPLY)

Total variable cost changes when changes in the activity occur within the relevant range. The cost per unit for a variable cost is constant for all activity levels within the relevant range. Thus, if the activity volume increases within the relevant range, total variable costs will increase. A fixed cost

does not change when volume changes occur in the activity level within the relevant range. If the activity volume increases within the relevant range, total fixed costs will remain unchanged.

NEW QUESTION: 119

For a multinational organization, which of the following is a disadvantage of an ethnocentric staffing policy?

1. It significantly raises compensation and staffing costs.
2. It produces resentment among the organization's employees in host countries.
3. It limits career mobility for parent-country nationals.
4. It can lead to cultural myopia.

- A.** 2 and 3 only
B. 1 and 4 only
C. 1, 2, and 4 only
D. 1, 2, and 3 only

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 120

Refer to the exhibit.

The figure below shows the network diagram for the activities of a large project. What is the shortest number of days in which the project can be completed?

- A.** 27 days.
B. 22 days.
C. 51 days.
D. 21 days.

Answer: (SHOW ANSWER)

NEW QUESTION: 121

At the introduction stage of an innovative product, the profit growth is normally slow due to:

- A.** Expensive sales promotion.
B. High competition.
C. A mass market.
D. Available alternatives.

Answer: A ([LEAVE A REPLY](#))

The introduction stage is characterized by slow sales growth and lack of profits because of the high expenses of promotion and selective distribution to generate awareness of the product and encourage customers to try it. Thus, the per-customer cost is high. Competitors are few, basic versions of the product are produced, and higher-income customers (innovators) are usually targeted. Cost-plus prices are charged. They may initially be high to permit cost recovery when unit sales are low. The strategy is to infiltrate the market, plan for financing to cope with losses, build supplier relations, increase production and marketing efforts, and plan for competition.

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NEW QUESTION: 122

Which of the following is a false statement about cost-based pricing?

- A. A cost-based price should cover costs and provide the desired return on investment.
- B. A commonly used cost-plus pricing formula is to add a markup percentage to the total cost.
- C. Variable costs may not be used as the basis for costs.
- D. A cost-plus price equals the cost plus a markup.

Answer: C (LEAVE A REPLY)

Cost-based pricing begins with a cost determination followed by setting a price that will recover the value chain costs and provide the desired return on investment. A cost-plus price equals the cost plus a markup. Cost may be defined in many ways. Most companies use either absorption manufacturing cost or total cost when calculating the price. Variable costs may be used as the basis for cost, but then fixed costs must be covered by the markup.

NEW QUESTION: 123

Which of the following would not impair the objectivity of internal auditor?

- A. Implementing risk responses on behalf of management.
- B. Setting the risk appetite.
- C. Management assurance on risks.
- D. Providing assurance that risks assessed are correctly evaluated.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 124

Which one of the following is not a characteristic of an innovative manufacturing company?

- A. Emphasis on continuous improvement.
- B. Responsiveness to the changing manufacturing environment.
- C. Emphasis on existing products.
- D. Improved customer satisfaction through product quality.

Answer: (SHOW ANSWER)

Innovative companies are customer driven. Because customers demand ever better quality and competitors are attempting to provide that quality, continuous improvement called kaizen by the Japanese) is essential for such companies. Thus, the flaw of innovative products and services

must be continuous. Simply emphasizing existing products is not an effective strategy for most organizations.

NEW QUESTION: 125

Company B's bank requires a compensating balance of 20% on a US \$100,000 loan. If the stated interest on the loan is 7%, what is the effective cost of the loan?

- A. 5.83%
- B. 7.00%
- C. 8.40%
- D. 8.75%

Answer: D (LEAVE A REPLY)

Interest on the loan is US \$7,000 (7% x \$100,000). Given that the borrower has to maintain a 20% compensating balance, only US \$80,000 [$\$100,000 - 20\% \times 100,000$] is available for use. Thus, the company is paying US \$7,000 for the use of US \$80,000 in funds at an effective cost of 8.75% (US. $\$7,000 / 80,000$).

NEW QUESTION: 126

A technology developer has entered a two-year contract with another organization to design new software.

According to IIA guidance, which of the following provisions of this agreement would be the most effective to protect the developer's product knowledge and expertise?

- A. A performance measurement system.
- B. The right to audit.
- C. Defined roles and responsibilities.
- D. Intellectual property rights.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 127

Rejection of unauthorized modifications to application systems could be accomplished through the use of:

- A. Programmed checks.
- B. Batch controls.
- C. Implementation controls.
- D. One-for-one checking.

Answer: C (LEAVE A REPLY)

General controls include organizational controls, such as a policy (an implementation control) that requires new programs and changes in programs (after adequate testing) to be formally approved before being put into operation (implemented). This policy is reflected in the maintenance of approval and change sheets with appropriate authorizations.

NEW QUESTION: 128

Using variable costing, the company's operating profit was:

- A. US \$750,000
- B. US \$840,000 C US \$915,000 D US \$975,000

Answer: B (LEAVE A REPLY)

Under variable costing, the product cost includes only variable manufacturing costs. All fixed costs are expensed in the period incurred. Unit product cost under variable costing is US \$6 (\$600,000 / 100,000 units produced).

| | |
|--|-----------------------|
| Revenue (85,000 units × US \$30) | US \$2,550,000 |
| Variable cost of goods sold (85,000 units × US \$6) | (510,000) |
| Variable nonmanufacturing costs | (500,000) |
| Contribution margin | <u>US \$1,540,000</u> |
| Fixed costs | (700,000) |
| Operating profit | <u>US \$ 840,000</u> |

A and B, are autonomous divisions of a corporation. They have no beginning or ending inventories, and the number of units produced is equal to the number of units sold. Following is financial information relating to the two divisions:

| | Division A | Division B |
|--|---------------|---------------|
| Sales | US \$150,000 | US \$400,000 |
| Other revenue | 10,000 | 15,000 |
| Direct materials | 30,000 | 65,000 |
| Direct labor | 20,000 | 40,000 |
| Variable factory overhead | 5,000 | 15,000 |
| Fixed factory overhead | 25,000 | 55,000 |
| Variable S&A expense | 15,000 | 30,000 |
| Fixed S&A expense | 35,000 | 60,000 |
| Central corporate expenses (allocated) | 12,000 | 20,000 |

NEW QUESTION: 129

Buyer-based pricing involves:

- A. Adding a standard markup to the cost of the product.
- B. Determining the price at which the product will earn a target profit.
- C. Basing prices on the product's perceived value.
- D. Basing prices on competitors' prices.

Answer: C (LEAVE A REPLY)

Buyer-based pricing involves basing prices on the product's perceived value rather than on the seller's cost. Nonprice variables in the marketing mix augment the perceived value. For example, a cup of coffee may have a higher price at an expensive restaurant than at a fast food outlet.

NEW QUESTION: 130

A retail organization is considering acquiring a composite textile company. The retailer's due diligence team determined the value of the textile company to be \$50 million. The financial experts forecasted net present value of future cash flows to be \$60 million. Experts at the textile company determined their company's market value to be \$55 million if purchased by another entity. However, the textile company could earn more than \$70 million from the retail organization due to synergies. Therefore, the textile company is motivated to make the negotiation successful. Which of the following approaches is most likely to result in a successful negotiation?

- A.** Adopt an added-value negotiating strategy, develop a bargaining zone between \$50 million and \$70 million, and create sets of outcomes between \$50 million and \$70 million.
- B.** Involve a mediator as a neutral party who can work with the textile company's management to determine a bargaining zone.
- C.** Develop a bargaining zone that lies between \$55 million and \$60 million and create sets of outcomes between \$55 million and \$60 million.
- D.** Develop a bargaining zone that lies between \$50 million and \$70 million and create sets of outcomes between \$50 million and \$70 million.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 131

Assuming an available-for-sale financial asset that is not part of a hedge is remeasured to fair value at the balance sheet, the gain or loss not arising from foreign exchange transactions or impairment:

- A.** Must be recognized in profit or loss.
- B.** Must be recognized directly in equity.
- C.** May be recognized in profit or loss or directly in equity.
- D.** Must be recognized in profit or loss if the result is a loss and directly in equity if the result is a gain.

Answer: **B** ([LEAVE A REPLY](#))

A gain or loss on an available-for-sale financial asset that is not part of a hedge is recognized directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains and losses. The accumulated remeasurement gain or loss is included in profit or loss when the asset is derecognized.

NEW QUESTION: 132

Your company (Company Y) has decided to enter the European market with one of its products and is now considering three advertising strategies. This market currently belongs to Company X. Company X is aware that your company is entering the market and is itself considering steps to protect its market. An analyst for your company has identified three strategies Company X might develop and has shown the payoffs for each in the tables below.

different writers, but the nature and sequence of the steps are essentially the same. Life cycle methodologies provide enhanced management and control of the development process because they provide structure for a creative process by dividing it into manageable steps and specifying what must be produced in each phase.

NEW QUESTION: 134

When assessing the adequacy of a risk mitigation strategy, an internal auditor should consider which of the following?

1. Management's tolerance for specific risks.
2. The cost versus benefit of implementing a control.
3. Whether a control can mitigate multiple risks.
4. The ability to test the effectiveness of the control.

- A. 2, 3, and 4
- B. 1, 2, and 4
- C. 1, 2, and 3
- D. 1, 3, and 4

Answer: D (LEAVE A REPLY)

NEW QUESTION: 135

Which of the following application controls is the most dependent on the password owner?

- A. Password rotation
- B. Password lockout
- C. Password aging
- D. Password selection

Answer: D (LEAVE A REPLY)

NEW QUESTION: 136

Under a value-added taxing system:

- A. Businesses must pay a tax only if they make a profit
- B. The consumer ultimately bears the incidence of the tax through higher prices.
- C. Consumer savings are discouraged.
- D. The amount of value added is the difference between an entity's sales and its cost of goods sold.

Answer: B (LEAVE A REPLY)

A value-added tax is based on consumption. The tax is levied on the value added to goods by each business unit in the production and distribution chain. It is the consumer who ultimately bears the incidence of the tax because businesses subject to the tax will raise prices to offset the operating cost of the tax.


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NEW QUESTION: 137

The economic order quantity Q is the size of the order that minimizes total inventory costs. These costs, which are composed of ordering and holding costs, can be computed using the following expression:

$$TC = \frac{QS}{2} + \left(\frac{D}{Q}\right)P + F$$

If: TC = total inventory costs
 Q = size of each order
 D = annual demand in units
 F = fixed costs of ordering
 p = variable cost of placing one order
 s = holding (carrying) cost per year for one unit of inventory



The following inventory information is available for an organization:

| | |
|--|--------------|
| Annual demand (D) | 20,000 units |
| Variable cost of placing one order (p) | US \$100 |
| Holding cost per unit (s) | \$1 |
| Economic order quantity (Q) | 2,000 units |
| Fixed cost of ordering | \$0 |

If the organization decides to order 4,000 units at a time rather than 2,000 units by hour much will its total inventory costs change?

- A. US \$500 increase
- B. US \$1,000 increase.
- C. US \$1,000 decrease.
- D. US \$900 increase.

Answer: A (LEAVE A REPLY)

When the order size is 2,000 units, the variable inventory costs are US \$2,000 $\{[(2,000 \text{ units } \$1) - 2] - [(20,000 \text{ units} - 2,000 \text{ units}) \$100]\}$. When the order size is 4,000 units, the variable inventor-.costs are US \$2,500 $1[(4,000 \text{ units } \$1) - 2] + [(20,000 \text{ units} - 4,000 \text{ units}) \$100]\}$. The increase in inventor-.j costs is US \$500 $\$2,500 - \$2,000$.

NEW QUESTION: 138

Business combinations are accomplished either through a direct acquisition of assets and liabilities by a surviving corporation or by stock investments in one or more companies.

A parent-subsidary relationship always arises from a

- A. Tax-free reorganization.
- B. Vertical combination.

- C. Horizontal combination.
- D. Greater than 50% stock investment in another entity.

Answer: (SHOW ANSWER)

A parent-subsidiary relationship arises from an effective investment in the stock of another enterprise in the stock of 50%. The financial statements for the two companies ordinarily should be presented on a consolidated basis. To the extent the corporation is not wholly-owned, a noncontrolling interest is presented.

NEW QUESTION: 139

Which of the following steps in the accounting cycle is completed later than the others?

- A. Adjustments.
- B. Journalization
- C. Posting.
- D. Identification and measurement of transactions.

Answer: (SHOW ANSWER)

The order of the steps in the Accounting cycle is identification and measurement of transactions and other events required to be recognized, journalization, posting from the journals to the ledgers the development of a trial balance, adjustments to produce an adjusted trial balance, statement presentation closing, taking a post-closing trial balance optional and making reversing entries optional.

NEW QUESTION: 140

A project is expected to result in the following adjustments over the next year:

- Cash sales increase by US \$400,000.
- Expenses(except depreciation) increase by US \$180,000
- Depreciation increases by US \$80,000.

Assume the corporate tax rate is 34%. The total relevant net cash flows during that year are:

- A. US \$92,400
- B. US \$140,000
- C. US \$172,400
- D. US \$220,000

Answer: C (LEAVE A REPLY)

The increase in pre-tax profit is US \$140,000(\$400,000 cash sales increase - \$180,000 nondepreciation expenses increase - \$80,000 depreciation). Thus, taxes will increase by US \$47,600(\$140,000 x 34%), and the increase in net cash inflows will be US \$172,400(\$400,000 - \$180,000 - \$47,600).

NEW QUESTION: 141

Which of the following should an organization consider when developing strategic objectives for its business processes?

- 1. Contribution to the success of the organization.

- 2. Reliability of operational information.
- 3. Behaviors and actions expected of employees.
- 4. How inputs combine with outputs to generate activities.

- A. 3 and 4 only
- B. 1 and 3 only
- C. 2 and 4 only
- D. 1 and 2 only

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 142

Which of the following types of analytics focuses less on analysis and more on condensing data into more meaningful pieces of information?

- A. Prescriptive analytics
- B. Predictive analytics
- C. Diagnostic analytics
- D. Descriptive analytics

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 143

A carpet manufacturer maintains a retail division consisting of stores stocking its brand and other brands, and a manufacturing division that makes carpets and pads. An outside market exists for carpet padding material in which all padding produced can be sold. The proper transfer price for padding transferred from the manufacturing division to the retail division is:

- A. Variable manufacturing division production cost.
- B. Variable manufacturing division production cost plus allocated fixed factory overhead.
- C. Variable manufacturing division production cost plus variable selling and administrative cost.
- D. The market price at which the retail division could purchase padding.

Answer: ([SHOW ANSWER](#))

The three basic criteria that the transfer pricing system in a decentralized company should satisfy are to 1) provide information allowing central management to evaluate divisions with respect to total company profit and each division's contribution to profit, 2) stimulate each manager's efficiency without losing each division's autonomy, and 3) motivate each divisional manager to achieve his/her own profit goal in a manner contributing to the company's success. The market price should be used as the transfer price to avoid waste and maximize efficiency in a competitive economy (an outside market in which all padding produced can be sold). This price also measures the product's profitability and the division managers' performance in a competitive environment.

NEW QUESTION: 144

Which of the following must be adjusted to index a progressive tax system to inflation?

- A. Tax deductions, exemptions, and tax filings.
- B. Tax deductions, exemptions, and tax brackets.

- C. Tax brackets, tax deductions, and tax payments.
- D. Tax brackets, exemptions, and nominal tax receipts.

Answer: B (LEAVE A REPLY)

Explanation

NEW QUESTION: 145

Which of the following is a strategy that organizations can use to stimulate innovation?

1. Source from the most advanced suppliers.
2. Establish employee programs that reward initiative.
3. Identify best practice competitors as motivators.
4. Ensure that performance targets are always achieved.

- A. 1 and 3 only
- B. 1, 2, 3, and 4
- C. 1, 2, and 3 only
- D. 2 and 4 only

Answer: (SHOW ANSWER)

NEW QUESTION: 146

When determining cash flows accruing to the entity, using financial statements prepared for tax purposes will result in:

- A. No effect on cash flow amounts.
- B. An overstatement of cash flows throughout the economic life of the asset.
- C. An understatement of cash flows throughout the economic life of the asset.
- D. An overstatement of cash flows in the early years and then an understatement of cash flows in the later years of the economic life of the asset.

Answer: A (LEAVE A REPLY)

Cash flows are not affected by the basis of accounting used to prepare the financial statements. Accordingly, whether the financial statements are prepared based on the tax basis, the cash basis, or accounting principles generally accepted in a given country, cash flows should be the same. For example, the cash inflow or outflow resulting from using an accelerated depreciation method to determine actual tax expense or benefit (the amount paid to or refunded by the taxing authority) is completely unaffected by the depreciation method used in the financial statements. However, if cash flows are derived indirectly by adjusting profit or loss reported in the financial statements, different adjustments are necessary to arrive at the same cash flow amounts if different bases of accounting are used in the preparation of the financial statements.

NEW QUESTION: 147

One drawback of business process reengineering (BPR), sometimes referred to as business process analysis, is:

- A. Improved efficiency in the business processes analyzed.
- B. Excess of cost over the benefit.

- C. Reduction of operational efficiency.
- D. Employee resistance to change.

Answer: (SHOW ANSWER)

Business process reengineering (BPR), or business process analysis, involves process innovation and process redesign. Instead of improving existing procedures, it finds new ways of doing things. One major drawback of BPR is that employees may be resistant due to fear of layoffs, being replaced, or insecurity about new required skills or tasks that the employee now has to perform.

NEW QUESTION: 148

Which of the following is the best reason for considering the acquisition of a nondomestic organization?

- A. Improved cash flow of the acquiring organization.
- B. Opportunity to influence local government policy.
- C. Increased diversity of corporate culture.
- D. Relatively fast market entry.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 149

Listed below are costs of quality that a manufacturing company has incurred throughout its operations.

| <u>Cost Items</u> | <u>Amount</u> |
|---|---------------|
| Design reviews | US \$275,000 |
| Finished goods returned due to failure | 55,000 |
| Freight on replacement finished goods | 27,000 |
| Labor inspection during manufacturing | 75,000 |
| Labor inspection of raw materials | 32,000 |
| Manufacturing product-testing labor | 63,000 |
| Manufacturing rework labor and overhead | 150,000 |
| Materials used in warranty repairs | 68,000 |
| Process engineering | 180,000 |
| Product-liability claims | 145,000 |
| Product-testing equipment | 35,000 |
| Repairs to equipment due to breakdowns | 22,000 |
| Scheduled equipment maintenance | 90,000 |
| Scrap material | 125,000 |
| Training of manufacturing workers | 156,000 |

The U.S. dollar amount of the costs of quality classified as prevention costs for the manufacturing firm would be:



- A. US\$643,000
- B. US\$701,000
- C. US\$736,000
- D. US\$768,000

Answer: B (LEAVE A REPLY)

Prevention costs are incurred to prevent defects. Examples are the costs of employee training, review of equipment design, preventive maintenance, and evaluation of suppliers. Accordingly, the prevention costs equal US \$701,000 (\$275,000 design reviews + \$180,000 process engineering + \$90,000 scheduled maintenance + \$156,000 training).

NEW QUESTION: 150

If a high percentage of an entity's total costs is fixed, the entity's operating leverage will be:

- A. High
- B. Low
- C. Unchanged
- D. Unable to be determined

Answer: A (LEAVE A REPLY)

In business terminology, a high degree of operating leverage, other things held constant, means that a relatively small change in sales will result in a large change in operating income. Therefore, if a high percentage of an entity's total cost is fixed, the entity is said to have a high degree of operating leverage.

NEW QUESTION: 151

An entity has daily cash receipts of US \$300,000. A bank has offered to provide a lockbox service that will reduce the collection time by 3 days. The bank requires a monthly fee of US \$2,000 for providing this service. If money market rates are expected to average 6% during the year, the additional annual income loss) of using the lockbox service is:

- A. US \$(24,000)
- B. US \$12,000
- C. US \$30,000
- D. US \$54,000

Answer: (SHOW ANSWER)

Because collections will be accelerated by 3 days at a rate of US \$300,000 per days, the entity will have an additional US \$900,000 to invest. At a rate of 6%, the interest earned will be US \$54,000 per year. However, the bank will charge US \$24,000 (\$2,000 per month x 12 months) for its services. Thus, the entity will increase its income by US \$30,000 (\$54,000 - \$24,000).

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NEW QUESTION: 152

Exchange rates are determined by:

- A. Each industrial country's government.
- B. The International Monetary Fund.
- C. Supply and demand in the foreign currency market.
- D. Exporters and importers of manufactured goods.

Answer: (SHOW ANSWER)

Although currencies can be supported by various means for short periods, the primary determinant of exchange rates is the supply of and demand for the various currencies. Under current international agreements, exchange rates are allowed to "float." During periods of extreme fluctuations, however, governments and control banks may intervene to maintain stability in the market.

NEW QUESTION: 153

Subsequent measurement of trade receivables is at:

- A. Fair value through profit or loss
- B. Cost
- C. Amortized cost
- D. Fair value through equity

Answer: (SHOW ANSWER)

According to IAS 39, subsequent measurement of financial assets including derivatives that are assets) is at fair value with certain exceptions. Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method. Unquoted equity instruments whose fair value is not reliably measurable are reported at cost.

NEW QUESTION: 154

A global firm establishes a cost-based price for its product in each country. The most likely negative outcome is that this pricing strategy will:

- A. Set too high a price in countries where the firm's costs are high.
- B. Overprice the product in some markets and under price it in others.
- C. Create a gray market.
- D. Result in dumping.

Answer: A (LEAVE A REPLY)

A firm may set a cost-based price in each market with a standard markup. In a region or country where costs are high, this strategy may result in prices that are too high to be competitive within the local market.

NEW QUESTION: 155

An internal auditor was asked to review an equal equity partnership. In one sampled transaction, Partner A transferred equipment into the partnership with a self-declared value of \$10,000 and Partner B contributed equipment with a self-declared value of \$15,000. The capital accounts of each partner were subsequently credited with \$12,500. Which of the following statements is true regarding this transaction?

- A. The capital accounts should be increased using a weighted average based on the current percentage of ownership.
- B. The capital accounts of the partners should be increased by the fair market value of their contribution.
- C. The capital accounts of the partners should be increased by the original cost of the contributed equipment.
- D. No action is needed as the capital account of each partner was increased by the correct amount.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 156

A contract dispute has arisen between an organization and a major supplier. To resolve the dispute, the most competent evidence is:

- A. Oral testimony of contracting parties.
- B. The original contract.
- C. Actions by parties to the contract.
- D. A letter from the supplier's attorney.

Answer: B (LEAVE A REPLY)

The best primary evidence is the most persuasive evidence. Reliability and the best evidence rule are closely related. The best evidence rule is ordinarily applied only to documentary evidence, especially to proof of the content of a writing. If the original writing is available, the best evidence rule prohibits a party from proving the content of a writing through oral testimony. Therefore, the original writing is the most competent evidence.

NEW QUESTION: 157

Based upon the data derived from the regression analysis, 420 maintenance hours in a month would mean the maintenance costs (rounded to the nearest US dollar) would be budgeted at

- A. US \$3,780
- B. US \$3,600
- C. US \$3,790
- D. US \$3,746

Answer: (SHOW ANSWER)

Substituting the given data into the regression equation results in a budgeted cost of US \$3,746 (rounded to the nearest US dollar).

$$y = a + bx \quad y = 684.65 + 7.2884(420) \quad y = \text{US } \$3,746$$

In preparing the annual profit plan for the coming year, Wilkens Company wants to determine the cost behavior pattern of the maintenance costs. Wilkens has decided to use linear regression by employing the equation $y = a + bx$ for maintenance costs. The prior year's data regarding maintenance hours and costs, and the results of the regression analysis, are given below and in the opposite column.

Average cost per hour
 a
 b
 Standard error of a
 Standard error of b
 Standard error of the estimate
 r^2

US \$9.00
 684.05
 7.2884
 49.515
 12126
 34.469
 .99724



| | Hours of Activity | Maintenance Costs |
|-----------|-------------------|-------------------|
| January | 480 | US \$ 4,200 |
| February | 320 | 3,000 |
| March | 400 | 3,600 |
| April | 300 | 2,820 |
| May | 500 | 4,350 |
| June | 310 | 2,960 |
| July | 320 | 3,030 |
| August | 520 | 4,470 |
| September | 490 | 4,260 |
| October | 470 | 4,050 |
| November | 350 | 3,300 |
| December | 340 | 3,160 |
| Sum | 4,800 | US \$43,200 |
| Average | 400 | US \$ 3,600 |

NEW QUESTION: 158

Which of the following techniques would be least effective in resolving the conflict created by an internal audit client's perception of the audit report as a personal attack on his management performance?

- A. The auditor should take a flexible position on the recommendations and focus on resolving the issue by addressing the interests of the people concerned.
- B. The auditor should explore alternative solutions to address the audit problem, so the audit client has options.
- C. The auditor should make recommendations based on objective criteria, rather than based on a subjective assessment.
- D. The auditor should focus on the audit client as a person and understand him, rather than just concentrating on the problem.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 159

While reviewing the contracts for a large city, the internal auditor learns that the organization contracted to perform trash collection is paid based on the number of bins emptied each week. As a result, the city has minimal control over payments. Which of the following actions should the auditor recommend to give the city greater control over payments?

- A. Change the contract so payment is based on the distances traveled by the contractor during collection.
- B. Assign a city employee to verify the number of bins emptied each day.
- C. Renegotiate a lump-sum contract when the contract is up for renewal.
- D. Require that the contractor provide supervisory review of the number of bins emptied each day.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 160

When the equity method is used to account for the investment in an associate, the recording of the receipt of a cash distribution from the investee will result in:

- A. The recognition of investment income.
- B. A reduction in the investment balance.
- C. An increase in a liability account.

D. An increase in a special equity account.

Answer: B (LEAVE A REPLY)

When the equity method is used, the investment is initially recorded at cost on the entity's books. The carrying amount is subsequently adjusted to recognize the profits or losses of the associate after the date of acquisition. Dividends received from an associate reduce the carrying amount.

NEW QUESTION: 161

Which of the following purchasing scenarios would gain the greatest benefit from implementing electronic data interchange?

- A. A large volume of custom purchases.
- B. A currently inefficient purchasing process.
- C. A variable volume sensitive to material cost.
- D. A time-sensitive just-in-time purchase environment.

Answer: (SHOW ANSWER)

NEW QUESTION: 162

Which of the following is a major element of the ISO 9000:2008 quality management system standards?

- A. The principle that improved employee satisfaction will lead to increased productivity.
- B. The attitude and actions of the board and management regarding the significance of control within the organization.
- C. The assessment of the risk that objectives are not achieved.
- D. A requirement for organizations to monitor information on customer satisfaction as a measure of performance.

Answer: D (LEAVE A REPLY)

ISO 9001:2008, Quality Management Systems- Requirements s, is the standard that provides a model for quality assurance programs. Organizations are required to monitor information on customer satisfaction as a measure of performance.

NEW QUESTION: 163

The use of teams in total quality management (TQM) is important because:

- A. Well-managed teams can be highly creative and are able to address complex problems better than individuals can.
- B. Teams are quicker to make decisions, thereby helping to reduce cycle time.
- C. Employee motivation is higher for team members than for individual contributors.
- D. The use of teams eliminates the need for supervision, thereby allowing a company to become leaner and more profitable.

Answer: A (LEAVE A REPLY)

Teams can use the diverse knowledge and skills of all team members. Employee involvement means training and empowering employees to harness their creativity for problem solving. Quality

control circles are used to obtain input from employees and to locate the best perspective on problem solving.

NEW QUESTION: 164

A flexible budget is a quantitative expression of a plan that:

- A. Is developed for the actual level of output achieved for the budget period.
- B. Is comprised of the budgeted income statement and its supporting schedules for a budget period.
- C. Focuses on the costs of activities necessary to produce and sell products and services for a budget period.
- D. Project costs on the basis of future improvements in existing practices and procedures during a budget period.

Answer: (SHOW ANSWER)

A flexible budget is a series of budgets prepared for many levels of activity. It is designed to allow adjustment of the budget to the actual level of activity before comparing the budgeted activity with actual results.

NEW QUESTION: 165

If a just-in-time purchasing policy is successful in reducing the total inventory costs of a manufacturing company, which of the following combinations of cost changes would be most likely to occur?

- A. An increase in purchasing costs and a decrease in stockout costs.
- B. An increase in purchasing costs and a decrease in quality costs.
- C. An increase in quality costs and a decrease in ordering costs.
- D. An increase in stockout costs and a decrease in carrying costs.

Answer: D (LEAVE A REPLY)

In this situation, the company will be receiving fewer materials at any point in time, increasing the likelihood of stockout and thereby resulting in an increase in a reduction in the carrying cost. At the same time, the average inventory will be less, resulting in a reduction in the carrying cost.

NEW QUESTION: 166

A change in credit policy has caused an increase in sales, an increase in discounts taken, a decrease in the amount of bad debts, and a decrease in the investment in accounts receivable. Based upon this information, the entity's:

- A. Average collection period has decreased.
- B. Percentage discount offered has decreased.
- C. Accounts receivable turnover has decreased.
- D. Working capital has increased.

Answer: A (LEAVE A REPLY)

An increase in discounts taken accompanied by declines in receivables balances and doubtful accounts all indicate that collections on the increased sales have been accelerated. Accordingly,

the average collection period must have declined. The average collection period is a ratio calculated by dividing the number of days in a year (365) by the receivable turnover. Thus, the higher the turnover, the shorter the average collection period. The turnover increases when either sales (the numerator) increase, or receivables (the denominator) decrease. Accomplishing both higher sales and a lower receivables increases the turnover and results in a shorter collection period.

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NEW QUESTION: 167

Traditional information systems development procedures that ensure proper consideration of controls may not be followed by users developing end-user computing (EUC) applications. Which of the following is a prevalent risk in the development of EUC applications?

- A.** Management decision making may be impaired due to diminished responsiveness to management's requests for computerized information.
- B.** Management may be less capable of reacting quickly to competitive pressures due to increased application development time.
- C.** Management may place the same degree of reliance on reports produced by EUC applications as it does on reports produced under traditional systems development procedures.
- D.** Management may incur increased application development and maintenance costs for EUC systems, compared with traditional mainframe systems.

Answer: C (LEAVE A REPLY)

End-user developed applications may not be subject to an independent outside review by systems analysts and are not created in the context of a formal development methodology. These applications may lack appropriate standards, controls, quality assurance procedures, and documentation. A risk of end-user applications is that management may rely on them as much as traditional applications.

NEW QUESTION: 168

The balanced scorecard approach differs from traditional performance measurement approaches because it adds which of the following measures?

1. Financial measures
2. Internal business process measures.
3. Client satisfaction measures

4. Innovation and learning measures

- A. 1 only.
- B. 2 and 4 only.
- C. 2, 3, and 4 only
- D. 3 and 4 only.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 169

Governments most likely restrict trade in the long run to:

- I. Help foster new industries.
- II. Protect declining industries.
- III. Increase tax revenues.
- IV. Foster national security.

- A. I only
- B. I and II only
- C. II and III only
- D. I, II, and IV only

Answer: (SHOW ANSWER)

Governmental impediments to global competition are generally imposed for the announced purpose of protecting local entities and jobs and developing new industries.

They also may have the effect of raising revenue in the short run. In the long run, tax and revenues will decline because of reduced trade. Examples of governmental impediments are tariffs; duties; quotas; domestic content rules; preferences for local entities regarding procurement, taxes. R&D, labor regulations, and other operating rules; and laws e.g., anti bribery or tax) enacted by a national government that impede national entities from competing globally. These impediments are most likely when industries are viewed as crucial.

NEW QUESTION: 170

In the Gantt chart below, shaded bars represent completed portions of activities, bars depicted with broken lines represent uncompleted portions, and blank bars represent activities not yet begun.



As of week 8, the Gantt chart shows that the project is:

- A. Complete.
- B. Ahead of schedule.

- C. On schedule.
- D. Behind schedule.

Answer: C (LEAVE A REPLY)

Activities B and C are the only activities that should be underway during week 8. Since both are underway and on schedule, the project is on schedule.

NEW QUESTION: 171

In December Year 1 catalogs were printed for use in a special promotion in January Year 2. The catalogs were delivered by the printer on December 13, Year 1 with an invoice for US \$70,000 attached. Payment was made in January Year 2. The US \$70,000 should be reported as a deferred cost at the December 31, Year 1, balance sheet date because of the:

- A. Matching principle.
- B. Revenue recognition principle.
- C. Reliability principle.
- D. Cost principle

Answer: A (LEAVE A REPLY)

Matching is the simultaneous or combined recognition of revenues and expenses resulting directly and jointly from the same transactions or other events. Expenses should be associated with the revenues that they help to create. Because the catalogs are still on hand at the balance sheet date, they will not contribute to an inflow of economic benefits until the next period. Hence, the cost should be deferred and matched with the revenues of the following period.

NEW QUESTION: 172

The networking capital is:

- A. US \$160
- B. US \$210
- C. US \$350
- D. US \$490

Answer: B (LEAVE A REPLY)

Net working capital is the difference between current assets and current liabilities. It equals US \$210 (\$100 cash + \$200 A/R + \$50 inventory - \$140 A/P).

NEW QUESTION: 173

A company experiences both variable usage rates and variable lead times for its inventory items. The probability distributions for both usage and lead times are known. A technique the company could use for determining the optimal safety stock levels for an inventory item is:

- A. Queuing theory.
- B. Linear programming.
- C. Decision tree analysis.
- D. Monte Carlo simulation.

Answer: D (LEAVE A REPLY)

Simulation is a technique for experimenting with mathematical models using a computer. Monte Carlo simulation is a technique to generate the individual values for a random variable. A random number generator is used to produce numbers with a uniform probability distribution. The second step of the Monte Carlo process then transforms the random numbers into values consistent with the desired distribution. The performance of a model under conditions of uncertainty may be investigated by randomly selecting values for each of the variables in the model based on the probability distribution of each variable and then calculating the value of the solution. Advantages of Monte Carlo simulation are that time can be compressed, alternative policies can be considered, and complex systems can be analyzed.

NEW QUESTION: 174

To index a progressive tax system to inflation, the government must:

- A. Adjust only tax deductions and exemptions.
- B. Adjust only tax brackets.
- C. Adjust deductions, exemptions, and tax brackets.
- D. Ensure that nominal tax receipts grow more slowly than inflation.

Answer: C (LEAVE A REPLY)

If tax brackets are not adjusted for inflation, increases in nominal but not real income may push taxpayers into tax brackets with higher progressive) rates. Additionally, deductions and exemptions must be indexed so that the real incidence of taxation is not increased by inflation. Increases in nominal but not real income will result in higher real taxable income if deductions and exemptions have not been adjusted for inflation.

NEW QUESTION: 175

The management of ABC Corporation is analyzing the financial statements of XYZ Corporation because ABC is strongly considering purchasing a block of XYZ ordinary shares that would give ABC significant influence over XYZ. Which financial statement should ABC primarily use to assess the amounts, timing, and certainty of future cash flows of XYZ Company?

- A. Income statement.
- B. Statement of changes in equity.
- C. Statement of cash flows.
- D. Balance sheet.

Answer: (SHOW ANSWER)

A statement of cash flows provides information about the cash receipts and cash payments of an enterprise during a period. This information helps investors, creditors, and other users to assess the enterprise's ability to generate cash and cash equivalents and the needs of the enterprise to use those cash flows. Historical cash flow data indicate the amount, timing, and certainty of future cash flows. It is also a means of verifying past cash flow assessments and of determining the relationship between profits and net cash flows and the effects of changing price.

NEW QUESTION: 176

Which of the following is classified as a product cost using the variable costing method?

1. Direct labor costs.
2. Insurance on a factory.
3. Manufacturing supplies.
4. Packaging and shipping costs.

- A.** 3 and 4.
B. 2 and 4.
C. 1 and 2.
D. 1 and 3.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 177

Which of the following techniques would be least effective in resolving the conflict created by an internal audit client's perception of the audit report as a personal attack on his management performance?

- A.** The auditor should focus on the audit client as a person and understand him, rather than just concentrating on the problem.
- B.** The auditor should explore alternative solutions to address the audit problem, so the audit client has options.
- C.** The auditor should take a flexible position on the recommendations and focus on resolving the issue by addressing the interests of the people concerned.
- D.** The auditor should make recommendations based on objective criteria, rather than based on a subjective assessment.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 178

Countries X and Y both have freely floating exchange rate systems and an active trading relationship. If incomes [List A] in country X while all other factors remain unchanged, then the currency of country X will tend to [List B] relative to the currency of country Y.

- A.** List A
List B
- B.** Fall
Depreciate
- C.** Remain constant
Appreciate
- D.** Rise
Remain constant
Rise
Depreciate

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 179

If the average age of inventory is 60 days, the average age of the accounts payable is 30 days, and the average age of accounts receivable is 45 days, the number of days in the cash flow cycle is:

- A. 135 days.
- B. 90 days.
- C. 75 days.
- D. 105 days.

Answer: C ([LEAVE A REPLY](#))

The cash flow cycle begins when the entity pays for merchandise it has purchased and ends when the entity receives cash from the sale of the merchandise. Inventory is held for an average of 60 days prior to sale, but the average age of accounts payable is 30 days.

Consequently, the average time between outlay and sale is 30 days. Receivables are collected an average of 45 days after sale, so the length of the cash flow cycle is 75 days (30 + 45).

NEW QUESTION: 180

Ordinary shareholders with preemptive rights are entitled to:

- A. Vote first at annual meetings.
- B. Purchase any additional bonds sold by the entity.
- C. Purchase any additional shares sold by the entity.
- D. Gain control of the entity in a proxy fight.

Answer: (SHOW ANSWER)

Preemptive rights protect ordinary shareholders, proportional ownership interests from dilution in value. A secondary purpose is to maintain the shareholders' control of the entity. Accordingly, the preemptive right, whether granted by statute or by the corporate charter, grants ordinary shareholders the power to acquire on a pro rata basis any additional ordinary shares sold by the entity. Preemptive rights also apply to debt convertible into ordinary shares.

NEW QUESTION: 181

When using cost-volume-profit analysts which of the following will increase operating income once the break-even point has been reached?

- A. Fixed costs per unit for each additional unit sold
- B. Contribution margin per unit for each additional unit sold
- C. Gross margin per unit for each additional unit sold
- D. Variable costs per unit for each additional unit sold

Answer: B ([LEAVE A REPLY](#))

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NEW QUESTION: 182

According to IIA guidance, which of the following steps are most important for an internal auditor to perform when evaluating an organization's social and environmental impact on the local community?

1. Determine whether previous incidents have been reported, managed, and resolved.
 2. Determine whether a business contingency plan exists.
 3. Determine the extent of transparency in reporting.
 4. Determine whether a cost/benefit analysis was performed for all related projects.
- A. 1 and 4.
B. 1 and 3.
C. 2 and 4.
D. 2 and 3.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 183

The measurement date in accounting for shares issued to employees in share option plans accounted for in accordance with the fair value method prescribed by IFRS 2 is:

- A. The date on which options are granted to specified employees.
B. The earliest date on which both the number of shares to be issued and the option price are known.
C. The date on which the options are exercised by the employees.
D. The date the entity forgoes alternative use of the shares to be sold under option

Answer: ([SHOW ANSWER](#))

Under the fair-value-based method prescribed by IFRS 2, compensation expense is measured at the grant date. This expense is based on the fair value of the award at that date and recognized over the vesting period, the period over which the vesting conditions are expected to be satisfied.

NEW QUESTION: 184

A master budget:

- A. Shows forecasted and actual results.
B. Contains only controllable costs.
C. Can be used to determine manufacturing cost variances.
D. Contains the operating budget.

Answer: ([SHOW ANSWER](#))

The operating budget sequence is part of the master budget process that begins with the sales budget and culminates in the pro forma income statement.

NEW QUESTION: 185

In May Raymar will be required to:

- A. Repay US \$20,000 principal and pay US \$1,000 interest
- B. Repay US \$90,000 principal and pay US \$100 interest
- C. Pay US \$900 interest
- D. Borrow an additional US \$20,000 and pay US \$1,000 interest.

Answer: D (LEAVE A REPLY)

The company will have to borrow US \$100,000 in April. which means that interest will have to be paid in May at the rate of 1% per month 12% annual rate). Consequently, interest expense is US \$1,000 $(\$100,000 \times 1\%)$ May sales $\times 50\%$) + \$50,000 April sales $\times 50\%$]. Disbursements in May \$4rt,nrtr! [740,000 May payables $\times 75\%$) + \$40,000 April payables 25%]). In addition to the May accounts payable disbursements, payroll and other disbursements are US \$60,000, bringing total disbursements to US \$101,000 $(\$60,000 + \$40,000 + \$1,000)$ Thus, disbursements exceed receipts by US \$26,000 $(\$101,06u \$75,000)$. However, cash has a beginning surplus balance of US \$7,500 $(\$100,000 \text{ April loan} - \$92,500 \text{ negative cash flow for April})$. As a result, the company needs to borrow an additional US \$18,500 to eliminate its cash deficit. Given the requirement that loans be in US \$10,000 increments, the May loan must be for US \$20,000. The Raymar Company is preparing its cash budget for the months of April and May. The firm has established a US Collections. 50% of the current month's sales budget and 50% of the previous month's sales budget. \$200,000 line of credit with its bank at a 12% annual rate of Accounts Payable Disbursements. 75% of the current month's interest on which borrowings for cash deficits must be made in US\$. increments. There is no outstanding balance on the accounts payable budget and 25% of the previous month's accounts payable budget. line of credit loan on April 1. Principal repayments are to be made in any month in which there is a surplus of cash. Interest is to be paid monthly. If there are no outstanding balances on the loans. Raymar will invest any cash in excess of its desired end-of-month cash balance in U.S. Treasury bills. Raymar intends to maintain a minimum balance of US All other disbursements occur in the month in which they are budgeted.

NEW QUESTION: 186

An internal auditor performed a review of IT outsourcing and found that the service provider was failing to meet the terms of the service level agreement. Which of the following approaches is most appropriate to address this concern?

- A. The organization should review the skill requirements and ensure that the service provider is maintaining sufficient expertise and retaining skilled resources.
- B. The organization should work with the service provider to review the current agreement and expectations relating to objectives, processes, and overall performance.
- C. The organization should ensure that there is a clear management communication strategy and path for evaluating and reporting on all outsourced services concerns.
- D. The organization should proactively monitor the performance of the service provider, escalate concerns, and use penalty clauses in the contract where necessary.

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 187

Which of the following is false with regard to Internet connection firewalls?

- A. Firewalls monitor attacks from the Internet.
- B. Firewalls may be software-based or hardware-based.
- C. Firewalls can protect against computer viruses.
- D. Firewalls provide network administrators tools to retaliate against hackers.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 188

An Internet firewall is designed to provide adequate protection against which of the following?

- A. A computer virus.
- B. Unauthenticated logins from outside users.
- C. Insider leaking of confidential information.
- D. A Trojan horse application.

Answer: B ([LEAVE A REPLY](#))

A firewall is a combination of hardware and software that separates two networks and prevents passage of specific types of network traffic while maintaining a connection between the networks. Generally, an Internet firewall is designed to protect a system from unauthenticated logins from outside users, although it may provide several other features as well.

NEW QUESTION: 189

The following steps make up the stages of a theory of constraints (TOC) analysis.

- I. Determine the most profitable product mix given the constraint.
- II. Increase capacity at the constraint.
- III Identify the constraint.
- IV.

Redesign the manufacturing process.

V. Maximize the flow through the constraint.

If executed in the correct order, the sequence is

- A. III, I, II, V, IV
- B. III, II, I, V, IV
- C. III, II, I, IV, V
- D. III, I, V, II, IV

Answer: D ([LEAVE A REPLY](#))

The steps in a TOC analysis are (1) identify the constraint, (2) determine the most profitable product mix given the constraint, (3) maximize the flow through the constraint, (4) increase capacity at the constraint, and (5) redesign the manufacturing process for greater flexibility and speed.

NEW QUESTION: 190

Convertible bonds and bonds issued with warrants differ in that:

- A.** Convertible bonds have lower coupon rates than straight bonds, while bonds issued with warrants have higher coupon rates than straight bonds.
- B.** Convertible bonds have higher coupon rates than straight bonds, while bonds issued with warrants have lower coupon rates than straight bonds.
- C.** Convertible bonds remain outstanding after the bondholder exercises the right to become an ordinary shareholder, while bonds that are issued with warrants do not.
- D.** Bonds that are issued with warrants remain outstanding after the bondholder exercises the right to become an ordinary shareholder, while convertible bonds do not.

Answer: D (LEAVE A REPLY)

Warrants are usually detachable. They are options to purchase equity securities and should be separately accounted for. A capital gain results if the share price rises above the option price. The bonds remain outstanding if the warrants are exercised. Convertible bonds must be surrendered when the conversion privilege is exercised. Under IFRSs, the equity and debt features of convertible bonds are separately accounted for.

NEW QUESTION: 191

The journal entry required to close the utilities expense account is

- A.** Utilities expense US \$1,400 Income summary US \$1,400
- B.** Income Summary US \$1,400 Utilities expense US \$1,400
- C.** Rental expense US \$1,400 Utilities expense US \$1,400
- D.** Utilities expense US \$1,400 Retained earnings US \$1,400

Answer: B (LEAVE A REPLY)

All income statement account balances are closed either to a summary account such as income summary or revenue and expense summary) or to retained earnings. The normal balance of an expense account is a debit. Thus, an expense account is credited in a closing entry.

NEW QUESTION: 192

If a control total were to be computed on each of the following data items, which would best be identified as a hash total for a payroll computer application?

- A.** Hours worked.
- B.** Total debits and total credits.
- C.** Net pay
- D.** Department numbers.

Answer: D (LEAVE A REPLY)

The three types of control totals are record counts, financial totals, and hash totals Record counts establish the number of source documents and reconcile it to the number of output records. Financial totals compute dollar totals from source documents e.g.. the total dollar amount of invoices processes) and reconcile them with the output records. Hash totals add numbers on input documents that are not normally added e.g., department numbers), resulting in a total that is "meaningless" for any purpose other than this control.

Batchelder Company has the following invoices in a batch:

| <u>Invoice Number</u> | <u>Product</u> | <u>Quantity</u> | <u>Unit Price</u> |
|-----------------------|----------------|-----------------|-------------------|
| 201 | F10 | 150 | \$ 5.00 |
| 202 | G15 | 200 | 10.00 |
| 203 | H20 | 250 | 25.00 |
| 204 | K35 | 300 | 30.00 |

NEW QUESTION: 193

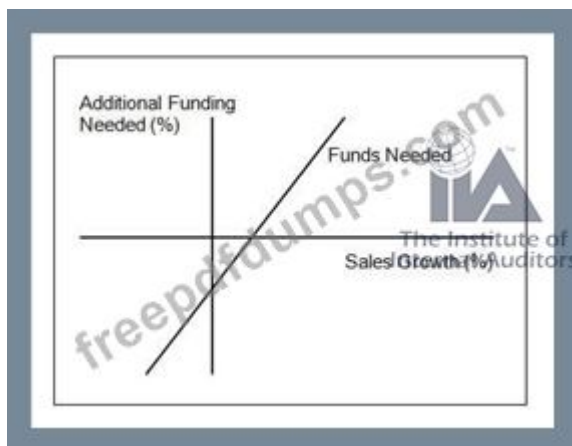
An organization is considering the outsourcing of its business processes related to payroll and information technology functions. Which of the following is the most significant area of concern for management regarding this proposed agreement?

- A. Ensuring that the vendor has complete management control of the outsourced process.
- B. Ensuring that there are means of monitoring the effectiveness of the outsourced process.
- C. Ensuring that payments to the vendor are appropriate and timely for the services delivered.
- D. Ensuring that there are means of monitoring the efficiency of the outsourced process.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 194

Refer to the exhibit.



If the profit margin of an organization decreases, and all else remains equal, which of the following describes how the "Funds Needed" line in the graph below will shift?

- A. The "Funds Needed" line will point downward with an extreme slope.
- B. The "Funds Needed" line will point downward with a minimal slope.
- C. The "Funds Needed" line will remain pointed upward, but will become less steep.
- D. The "Funds Needed" line will remain pointed upward, but will become more steep.

Answer: (SHOW ANSWER)

NEW QUESTION: 195

Company M sold 1,000 treasury shares at US \$33 per share. The shares had originally been issued at US \$12 per share and had been repurchased at US \$27 per share. The par value is US \$5 per share. In the entry to record the reissuance using the cost method, what account should be credited?

- A. Retained earnings of US \$6,000
- B. Treasury shares of US \$28,000
- C. Paid-in capital in excess of par of US \$28,000.
- D. Share premium of US \$6,000.

Answer: D (LEAVE A REPLY)

Under the cost method, treasury shares are carried at cost. In this case, cost is US \$27,000 (1,000 shares x \$27). The journal entry to record a sale at US \$33 per share is:

| | | |
|-----------------|-------------|-------------|
| Cash | US \$33,000 | |
| Treasury shares | | US \$27,000 |
| Share premium | | 6,000 |

NEW QUESTION: 196

User acceptance testing is more important in an object-oriented development process than in a traditional environment because of the implications of the:

- A. Absence of traditional design documents.
- B. Lack of a tracking system for changes.
- C. Potential for continuous monitoring.
- D. Inheritance of properties in hierarchies.

Answer: (SHOW ANSWER)

In object-oriented development, all objects in a class inherit the properties of higher classes in the hierarchy. Thus, changes in one object may affect many other objects, and the extent and effects of errors significantly increase. Testing one object provides no assurance that the objects are properly coordinated. Accordingly, user acceptance testing to verify correct functioning of the whole system becomes more important.

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NEW QUESTION: 197

What should the company focus on to achieve quality more economically?

- A. Appraisal costs.
- B. Prevention costs.

- C. Internal failure costs.
- D. External failure costs.

Answer: B (LEAVE A REPLY)

Prevention attempts to avoid defective output. Prevention costs include preventive maintenance, employee training, review of equipment design, and evaluation of suppliers. Prevention is less costly than detection and correction of defective output.

NEW QUESTION: 198

In preparing the annual profit plan for the coming year.

| Wilkens Company wants to determine the cost behavior pattern of the maintenance costs. Wilkens has decided to use linear regression by employing the equation $y = a + bx$ for maintenance costs. The prior year's data regarding maintenance hours and costs, and the results of the regression analysis, are given below and in the opposite column. | | Hours of Activity | Maintenance Costs |
|--|-----------|-------------------|-------------------|
| | | January | US \$ 4,200 |
| | | February | 3,000 |
| | | March | 3,600 |
| | | April | 2,820 |
| | | May | 4,350 |
| | | June | 2,960 |
| Average cost per hour | US \$9.00 | July | 3,030 |
| a | 684.65 | August | 4,470 |
| b | 7.2884 | September | 4,260 |
| Standard error of a | 49.515 | October | 4,050 |
| Standard error of b | .12126 | November | 3,300 |
| Standard error of the estimate | 34.469 | December | 3,160 |
| r^2 | .99724 | Sum | 43,200 |
| | | | US \$43,200 |

What is the percentage of the total variance that can be explained by the regression equation?

- A. 99.724%
- B. 69.613%
- C. 80.982%
- D. 99.862%

Answer: (SHOW ANSWER)

The coefficient of determination (r^2) measures the percentage of the total variance in cost that can be explained by the regression equation. If the coefficient of determination is .99724, 99.724% of the variance is explained by the regression equation. Thus, the values in the regression equation explain virtually the entire amount of total cost.

NEW QUESTION: 199

Operational management in the IT department has introduced performance evaluation policies that are linked to employees achieving continuing education hours. This activity is designed to prevent which of the following conditions?

- A. Knowledge/skills gap
- B. Communication failure.
- C. Monitoring gap
- D. Accountability/reward failure.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 200

Assume that the optimal capital budget for the company is US \$150 million. The marginal cost of capital and the appropriate discount rate to use in evaluating investment proposals for this company would be:

- A. 6%
- B. 8%
- C. 10%
- D. 12%

Answer: C ([LEAVE A REPLY](#))

The appropriate discount rate the cost of capital used in capital budgeting) theoretically is determined at the intersection of the IOS and MCC schedules. This intersection is at an r..1r~:0 of IC 1% and an optimal capital budget of US \$125 million. However, if the optimal capital budget is assumed to be US \$150 million, the company is still in the second interval of the MCC schedule. The marginal cost of financing in this part of the schedule is 10%.

NEW QUESTION: 201

Which of the following statements is true regarding cost-volume-profit analysis?

- A. Breakeven occurs when the contribution margin covers fixed costs
- B. Following breakeven, net operating income will increase by the excess of fixed costs less the variable costs per units sold
- C. Breakeven point is the amount of units sold to cover variable costs.
- D. Contribution margin is the amount remaining from sales revenue after fixed expenses have been deducted.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 202

Which of the following statements about slack time and milestones are true?

- 1.Slack time represents the amount of time a task may be delayed without delaying the entire project.
 - 2.A milestone is a moment in time that marks the completion of the project's major deliverables.
 - 3.Slack time allows the project manager to move resources from one task to another to ensure that the project is finished on time.
 - 4.A milestone requires resource allocation and needs time to be completed.
- A. 1, 2, 3, and 4
 - B. 1, 2, and 3 only
 - C. 1 and 4 only
 - D. 2 and 3 only

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 203

In the standard regression equation $y = a + bx$, how is the letter E best described?

- A. Independent variable.
- B. Dependent variable.
- C. Y intercept.
- D. Slope of the regression line.

Answer: ([SHOW ANSWER](#))

In the standard regression equation, b is the slope of the regression line.

NEW QUESTION: 204

Preferred stock is less risky for investors than is common stock because:

- A. Common stock has priority over preferred stock with regard to earnings and assets.
- B. Preferred dividends are usually cumulative.
- C. Common stock pays dividends as a stated percentage of face value.
- D. Preferred stock with no conversion feature has a higher dividend yield than does convertible preferred stock.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 205

In forecasting purchases of inventory for a firm, all of the following are useful except:

- A. Knowledge of the behavior of business cycles.
- B. Internal allocations of costs to different segments of the firm.
- C. Information on the seasonal variations in demand.
- D. Econometric modeling.

Answer: ([SHOW ANSWER](#))

Internal allocations of costs relate to costs already incurred, that is, to sunk costs. Sunk costs are not relevant to decision making, for example, to forecasting future purchases.

NEW QUESTION: 206

At the inception of a finance lease, how should the lessee account for guaranteed residual value?

- A. As part of minimum lease payments at present value.
- B. As part of minimum lease payments at future value.
- C. As part of minimum lease payments at future value of an annuity due.
- D. As not a part of the lease contract.

Answer: ([SHOW ANSWER](#))

The lessee records a finance lease as an asset and a liability at the inception of the lease at the fair value of the leased property not to exceed the present value of the minimum lease payments). The lessee's minimum lease payments include required payment sex including contingent rent and costs for services and taxes to be paid by and reimbursed to the lesser) during the lease term and the amount of a bargain purchase option. If no bargain purchase option exists, the minimum

lease payments equal the sum of the minimum payments payable over the lease term and any amounts guaranteed by the lessee or by a party related to the lessee.

NEW QUESTION: 207

Which of the following is an economic rationale for government intervention in trade?

- A. Maintaining spheres of influence.
- B. Protecting infant industries.
- C. Preserving national identity.
- D. Dealing with friendly countries.

Answer: B ([LEAVE A REPLY](#))

The infant-industry argument contends that protective tariffs are needed to allow new domestic industries to become established. Once such industries reach a maturity stage in their life cycles, the tariffs can be removed.

NEW QUESTION: 208

The two broad groupings of information systems control activities are general controls and application controls. General controls include controls:

- A. Relating to the correction and resubmission of faulty data.
- B. For developing, modifying, and maintaining computer programs.
- C. Designed to assure that only authorized users receive output from processing.
- D. Designed to ensure that all data submitted for processing have been properly authorized.

Answer: ([SHOW ANSWER](#)**)**

General controls are policies and procedures that relate to many information systems application and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls include controls over 1) data center and network operations; 2) systems software acquisition and maintenance; 3) access security; and 4) application systems, acquisition, development, and maintenance AU 319).

NEW QUESTION: 209

Assume that employees confessed to a US \$500,000 inventory theft but are not able to make restitution. How should this material fraud be shown in the company's financial statements?

- A. Classified as a loss and shown as a separate line item in the income statement.
- B. Initially classified as an accounts receivable because the employees are responsible for the goods. Because they cannot pay, the loss would be recognized as a write-off of accounts receivable.
- C. Included in cost of goods sold because the goods are not on hand, losses on inventory shrinkage are ordinary, and it would cause the least amount of attention.
- D. Recorded directly to retained earnings because it is not an income-producing item

Answer: A ([LEAVE A REPLY](#))

Expenses include losses. Their essential nature is the same, and they are not treated as separate financial statement elements. Losses may or may not occur in the course of ordinary activities.

For example, they may result from nonreciprocal transactions (e.g. theft), reciprocal transactions (e.g. a sale of plant assets), or from holding assets or liabilities. Losses are typically displayed separately.

NEW QUESTION: 210

A capital investment project will have a higher net present value, everything else being equal, if it has:

- A. Cash inflows that are larger in the earlier years of the life of the project.
- B. Cash inflows that are larger in the later years of the life of the project.
- C. A higher initial investment level.
- D. A higher discount rate.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 211

An accounting change requiring retrospective treatment is a change in:

- A. The residual value of equipment.
- B. Depreciation methods from straight-line to diminishing-balance.
- C. An accounting policy inseparable from a change in an accounting estimate.
- D. A provision for warranty costs.

Answer: B (LEAVE A REPLY)

A change in depreciation methods is reported as a change in accounting policy. A voluntary change in accounting policy is applied retrospectively unless it is impracticable. Retrospective application means adjusting the opening balances of equity for the first period presented and restating other comparative amounts.

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NEW QUESTION: 212

Which of the following "families" of controls is not described in The IIA's Global Technology Audit Guide (GTAG) 1, titled information Technology Controls?

- A. Governance, management, and technical controls.
- B. Preventive, detective, and corrective controls.
- C. Feedback, concurrent, and feedforward controls.
- D. IT general and application controls.

Answer: (SHOW ANSWER)

Feedback, concurrent, and feed forward controls are not referenced in GTAG 1.

NEW QUESTION: 213

A firm is attempting to estimate the reserves for doubtful accounts. The probabilities of these doubtful accounts follow a transition process over time. They evolve from their starting value to a changed value. As such, the most effective technique to analyze the problem is:

- A. Markov chain analysis.
- B. Econometric theory.
- C. Monte Carlo analysis.
- D. Dynamic programming.

Answer: A (LEAVE A REPLY)

A Markov chain is a series of events in which the probability of an event depends on the immediately preceding event. An example is the game of blackjack in which the probability of certain cards being dealt is dependent upon what cards have already been dealt. In the analysis of bad debts, preceding events, such as collections, credit policy changes, and write offs, affect the probabilities of future losses.

NEW QUESTION: 214

The cost of scrap, rework, and tooling changes in a product quality cost system is categorized as a n)

- A. Training cost.
- B. External failure cost.
- C. Internal failure cost.
- D. Prevention cost.

Answer: C (LEAVE A REPLY)

Internal failure costs are incurred when detection of defective products occurs before shipment. Examples of internal failure costs are scrap, rework, tooling changes, and downtime.

NEW QUESTION: 215

What kind of strategy would be most effective for an organization to adopt in order to implement a unique advertising campaign for selling identical product lines across all of its markets?

- A. Multi-domestic strategy
- B. Globalization strategy.
- C. Transnational strategy.
- D. Export strategy

Answer: (SHOW ANSWER)

NEW QUESTION: 216

An entity has 100,000 outstanding ordinary shares with a market value of US \$20 per share. Dividends of US \$2 per share were paid in the current year, and the entity has a dividend-payout ratio of 40%. The price-to-earnings ratio of the entity is:

- A. 25
- B. 4
- C. 10
- D. 50

Answer: B (LEAVE A REPLY)

The P-E ratio equals the share price divided by EPS. If the dividends per share equaled US \$2 and the dividend-payout ratio was 40%, EPS must have been US \$5 (\$2 ÷ .4). Accordingly, the P-E ratio is 4 (US \$20 share price ÷ \$5 EPS). Entity A has 50,000 ordinary shares and 10,000 preference shares outstanding at the start of the year on January 1. The preference shares are entitled to a US \$2 per share annual cash dividend, payable on December 31. The entity had profit of US \$1,517,000 for the year. On April 1, the entity issued 15,000 additional ordinary shares for cash. Entity B is identical to entity A in all respects except that it had 75,000 ordinary shares outstanding for the entire year.

NEW QUESTION: 217

The degree of financial leverage of B, to two decimal places, is:

- A. 1.03
- B. 1.05
- C. 1.2
- D. 1.25

Answer: B (LEAVE A REPLY)

The degree of financial leverage for B may be calculated as profit before interest and taxes (PBIT), divided by PBIT minus interest. PBIT is 200 (95 profit + 10 interest + 95 tax expense). Thus, the DFL is 1.05 [(200 - 200 - 10)].

NEW QUESTION: 218

How is the letter x in the standard regression equation best described?

- A. Independent variable.
- B. Dependent variable.
- C. Y intercept.
- D. Coefficient of determination.

Answer: (SHOW ANSWER)

The letter x in the standard regression equation is the independent variable. For example, in a regression to determine the total cost of production, x equals units produced.

NEW QUESTION: 219

An entity issued a noninterest bearing note payable due in 1 year in exchange for land.

The fair value of the land is not reliably determinable. Which of the following statements is true concerning the accounting for the transaction?

- A. The land should be recorded at the future value of the note, and interest should be imputed at the prevailing rate on similar notes.
- B. No interest should be recognized on the note, and the land should be recorded at the present value of the note
- C. Interest on the note should be imputed at the prime rate, and the land should be recorded at the discounted value of the note.
- D. Interest on the note should be imputed at the prevailing rate for similar notes, and the land should be recorded at the present value of the note.

Answer: D (LEAVE A REPLY)

When a financial liability is initially recognized, the entity should measure it at its cost as is the fair value of the consideration received. The fair value ordinarily is determined by reference to the transaction price or other market prices. If these prices are not reliably determinable, the fair value is estimated by discounting the future cash payments at an imputed rate equal to the prevailing market rate for a similar instrument similar as to currency term, and type of rate) of an issuer with a similar credit rating.

NEW QUESTION: 220

Which of the following would be a reasonable basis for allocating the material handling costs to the units produced in an activity-based costing system?

- A. Number of production runs per year.
- B. Number of components per completed unit.
- C. Amount of time required to produce one unit.
- D. Amount of overhead applied to each completed unit.

Answer: B (LEAVE A REPLY)

An essential element of activity-based costing (ABC) is driver analysis which identifies the cause-and-effect relationship between an activity and its consumption of resources and for an activity and the demands made on it by a cost object. There is a direct causal relationship between the number of components in a finished product and the amount of material handling cost incurred:

NEW QUESTION: 221

An entity has accounts payable of US \$5 million with terms of 2% discount within 15 days, net 30 days. It can borrow funds from a bank at an annual rate of 12%, or it can wait until the 30th day when it will receive revenues to cover the payment. If it borrows funds on the last day of the discount period in order to obtain the discount, its total cost will be:

- A. US \$51,000 less
- B. US \$75,500 less
- C. US \$100,000 less
- D. US \$24,500 more

Answer: (SHOW ANSWER)

The interest cost of borrowing US \$4,900,000 (5,000,000 x 98%) to take advantage of the discount is US \$24,500 [$4,900,000 \times 12\% \times \frac{15}{360}$], and the total cost will be US \$4,924,500. The total cost if the discount is not taken will be 5,000,000, a difference of US \$75,500.

NEW QUESTION: 222

The company estimates that by reducing its selling price to US \$9.30 per unit, it can increase sales to 90,000 units annually. Fixed costs per year and unit variable costs will remain unchanged. If the company reduces its selling price to US \$9.30 per unit, its profit will:

- A. Decrease by US \$5,000.
- B. Decrease by US 815,000.
- C. Decrease by US \$45,000.
- D. Increase by US \$15,000.

Answer: (SHOW ANSWER)

Since total fixed costs are unaffected, the change in profit is the change in the contribution margin. The contribution margin at the current selling price is US \$240,000 [$75,000 \text{ units} \times (\$10 - \$3 - \$1 - \$0.80 - \$2)$]. The contribution margin at the US \$9.30 selling price is US \$225,000 [$90,000 \text{ units} \times (\$9.30 - \$3 - \$1 - \$0.80 - \$2)$]. Hence, Profit will be reduced by US \$15,000 ($\$240,000 - \$225,000$) if the selling price is lowered to US \$9.30.

NEW QUESTION: 223

Which of the following is a false statement about a database management system application environment?

- A. Data are used concurrently by multiple users.
- B. Data are shared by passing files between programs or systems.
- C. The physical structure of the data is independent of user needs.
- D. Data definition is independent of any one program.

Answer: (SHOW ANSWER)

In this kind of system, applications use the same database. There is no need to pass files between applications.

NEW QUESTION: 224

Which group of ratios would be useful in evaluating the effectiveness of working capital management?

- A. Profit margin, acid-test ratio, and return on assets.
- B. Acid-test ratio, inventory turnover ratio, and average collection period ratio.
- C. Inventory turnover ratio, times interest earned, and debt-to-equity ratio.
- D. Acid-test ratio, current ratio, and return on equity.

Answer: (SHOW ANSWER)

Working capital equals current assets minus current liabilities. The acid-test ratio equals quick assets (current assets - inventory - prepaid expenses) divided by current liabilities.

Inventory a current asset) turnover equals cost of goods sold divided by divided inventory. The average collection period number of days' sales in accounts receivable, a current asset) equals the number of days in a year divided by the accounts receivable turnover net credit sales / average receivables). The foregoing are some of the many ratios that can be used to evaluate working capital management.

NEW QUESTION: 225

The average labor cost per unit for the first batch produced by a new process is US \$120. The cumulative average labor cost after the second batch is US \$72 per product. Using a batch size of 100 and assuming the learning curve continues, the total labor cost of four batches will be:

- A. US\$4,320
- B. US\$10,368
- C. US\$2,592
- D. US\$17,280

Answer: (SHOW ANSWER)

The learning curve reflects the increased rate at which people perform tasks as they gain experience. The time required to perform a given task becomes progressively shorter. Ordinarily, the curve is expressed in a percentage of reduced time to complete a task for each doubling of cumulative production. One common assumption in a learning curve model is that the cumulative average time (and labor cost) per unit is reduced by a certain percentage each time production doubles. Given a US \$120 cost per unit for the first 100 units and a US \$72 cost per unit when cumulative production doubled to 200 units, the learning curve percentage must be 60% ($\text{US } \$72 / \120). If production is again doubled to 400 units (four batches), the average unit labor cost should be US \$43.20 ($\$72 \times 60\%$). Hence, total labor cost for 400 units is estimated to be US \$17,280 ($400 \text{ units} \times \43.20).

NEW QUESTION: 226

An organization installed antivirus software on all its personal computers. The software was designed to prevent initial infections, stop replication attempts, detect infections after their occurrence, mark affected system components, and remove viruses from infected components. The major risk in relying on antivirus software is that antivirus software may:

- A. Not detect certain viruses.
- B. Make software installation overly complex.
- C. Interfere with system operations
- D. Consume too many system resources.

Answer: (SHOW ANSWER)

Antivirus software designed to identify and remove known viruses is sometimes know as a vaccine. A vaccine works only for known viruses and may not be effective for variants of those viruses or new viruses.

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NEW QUESTION: 227

Which of the following factors is most responsible for the increasing risk that unauthorized parties may obtain or tamper with personal data?

- A. The legislated need to retain sensitive personal information.
- B. The lack of legal and industry frameworks on privacy.
- C. The absence of generally accepted privacy principles.
- D. The rapid growth and evolution of technology.

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 228

Which of the following is a characteristic of just-in-time inventory management systems?

- A. They do not really increase overall economic efficiency because they merely shift inventory levels further up the supply chain.
- B. Users determine the optimal level of safety stocks.
- C. They rely heavily on high quality materials.
- D. They are applicable only to large organizations.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 229

A competitive marketing strategy in which a firm specializes in serving customers overlooked or ignored by major competitors is called a:

- A. Market leader strategy.
- B. Market challenger strategy.
- C. Market follower strategy.
- D. Market niche strategy.

Answer: (SHOW ANSWER)

Specializing in serving customers overlooked or ignored by major competitors is a market niche strategy. This strategy specializes along market, customer, product, or marketing mix lines.

NEW QUESTION: 230

Which of the following techniques is the most relevant when an internal auditor conducts a valuation of an organization's physical assets?

- A. Vouching.

- B. Inspection.
- C. Original cost.
- D. Observation.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 231

The technique used in analyzing the problem is best described as:

- A. Simulation theory.
- B. Integrated autoregressive-moving average (ARIMA) modeling.
- C. Linear programming.
- D. Differential calculus.

Answer: A ([LEAVE A REPLY](#))

Simulation is a technique for experimenting with logical/mathematical models using a computer. Despite the power of mathematics, many problems cannot be solved by known analytical methods because of the behavior of the variables and the complexity of their interactions. However, the performance of a quantitative model under uncertainty may be investigated by randomly selecting values for each of the variables in the model (based on the probability distribution of each variable) and then calculating the value of the solution. If this process is performed a large number of times, the distribution of results from the model will be obtained.

NEW QUESTION: 232

Because the VAN did not provide the internal auditor with access to its system, that portion of the engagement work program was not completed. Which one of the following should not be done by the internal auditor?

- A. Include the scope limitation in the final engagement communication.
- B. Rewrite the work program to eliminate the step
- C. Obtain the approval of the chief audit executive
- D. Document the VAN's actions in the working papers.

Answer: B ([LEAVE A REPLY](#))

A scope limitation is a restriction placed upon the IAA that precludes it from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the performance of necessary engagement procedures. A scope limitation and its potential effect should be communicated, preferably in writing, to the governing authority. A VAN is an alternative to direct EDI communications between transacting parties. Consequently, it is a vital component of internal control over these transactions, and the internal auditor's inability to obtain access constitutes a material limitation on the scope of the engagement to evaluate risk exposures and the adequacy and effectiveness of internal control. As a result, the original engagement program should be annotated but not rewritten.

NEW QUESTION: 233

Which of the following correctly describes the introduction of a government tax credit on investments?

- A. Corporate investments will have higher net present values, all else equal, than without the tax credit.
- B. Tax credits on investments are designed to restrain inflation.
- C. Tax credits on investments increase investment costs, and all else equal, reduce the level of corporate investment.
- D. Tax credits on investments are taxes that are typically levied on individual projects rather than on groups of projects.

Answer: A (LEAVE A REPLY)

An investment tax credit is an incentive because it directly reduces future tax payments. Thus, corporate investments will have higher net present values, all else equal, than without tax credits.

NEW QUESTION: 234

When a multinational entity decides to sell its products abroad, one of the risks it faces is that the government of the foreign market charges the entity with dumping. Dumping occurs when:

- A. The same product sells at different prices in different countries.
- B. An entity charges less than it costs to make the product to enter or win a market.
- C. Lower quality versions of the product are sold abroad so as to be affordable.
- D. Transfer prices are set artificially high so as to minimize tax payments.

Answer: B (LEAVE A REPLY)

Dumping is an unfair trade practice that violates international agreements. It occurs when an entity charges a price 1) lower than that in its home market or 2) less than the cost to make the product. Dumping may be done to penetrate a market or as a result of export subsidies.

NEW QUESTION: 235

Correlation is a term frequently used in conjunction with regression analysis and is measured by the value of the coefficient of correlation, r . The best explanation of the value r is that it:

- A. Is always positive.
- B. Interprets variances in terms of the independent variable.
- C. Ranges in size from negative infinity to positive infinity.
- D. Is a measure of the relative relationship between two variables.

Answer: (SHOW ANSWER)

The coefficient of correlation (r) measures the strength of the linear relationship between the dependent and independent variables. The magnitude of r is independent of the scales of measurement of x and y . The coefficient has a range of -1 to $+1$. A value of zero indicates no linear relationship between the x and y variables. A value of $+1$ indicates a perfectly direct relationship, and a value of -1 indicates a perfectly inverse relationship.

NEW QUESTION: 236

When using PERT (Program Evaluation Review Technique), the expected time for an activity when given an optimistic time (A), a pessimistic time (B), and a most likely time (m) is calculated by which one of the following formulas?

- A. $b - a = 2$
- B. $a + b = 2$
- C. $a + 4m + b = 6$
- D. $4abm = 6$

Answer: C (LEAVE A REPLY)

PERT was developed to aid managers in controlling large, complex projects. PERT analysis includes probabilistic estimates of activity completion times. Three time estimates are made: Optimistic, most likely, and pessimistic. The time estimates for an activity are assumed to approximate a beta probability distribution. PERT approximates the mean of the beta distribution by dividing the sum of the optimistic time, the pessimistic time, and four times the most likely time by six.

NEW QUESTION: 237

Assigning passwords to computer users is a control to prevent unauthorized access. Because a password does not conclusively identify a specific individual, it must be safeguarded from theft. A method used to protect passwords is to

- A. Require that they be displayed on computer screens but not printed on hard copy output.
- B. Set maximum character lengths.
- C. Require passwords to be changed periodically.
- D. Eliminate all records of old passwords.

Answer: (SHOW ANSWER)

Security measures include changing passwords frequently, that is, establishing a relatively short maximum retention period; not displaying or printing passwords; setting minimum lengths; prohibiting the use of certain words, character strings, or names, mandating a minimum retention period so users cannot promptly change passwords back to their old and convenient values; and retaining old passwords to prevent their use.

NEW QUESTION: 238

The trough of a business cycle is generally characterized by:

- A. Shortages of essential raw materials and rising costs.
- B. Increasing purchasing power and increasing capital investments.
- C. Rising costs and an unwillingness to risk new investments.
- D. Unused productive capacity and an unwillingness to risk new investments.

Answer: (SHOW ANSWER)

There are four phases of a business cycle: trough, recovery, peak, and recession. The trough is marked by low levels of economic activity and underuse of resources. Investors are unwilling to risk new investments in productive capacity.

NEW QUESTION: 239

What is the overall audit objective when auditing an e-commerce activity?

- A. To ensure that all e-commerce processes have efficient internal controls.
- B. To ensure that all e-commerce processes have effective internal controls.
- C. To ensure that all e-commerce processes are adequate to fulfill their intended objectives.
- D. To ensure that all e-commerce processes meet the functionality requirements of the end users.

Answer: B (LEAVE A REPLY)

According to PA 2100-6, when auditing e-commerce activities, the overall audit objective should be to ensure that all e-commerce processes have effective internal controls.

NEW QUESTION: 240

During the 10-year life of the asset, the entity will report as deferred tax an amount that:

- A. Increases steadily for the 10 years.
- B. Is constant.
- C. Increases and then decreases.
- D. Decreases and then increases.

Answer: C (LEAVE A REPLY)

The cumulative deferred tax increases, peaks, and then decreases to zero over the life of the asset. In the early years, the asset is depreciated more quickly for tax purposes than for financial reporting purposes. This temporary difference reverses in later years. Hence, in the early years, actual taxes payable will be less than tax expense reported in the financial statements and a deferred tax liability will be recognized. By the end of the asset's useful life, cumulative actual taxes paid will equal cumulative reported tax expense, so the deferred tax balance will be zero. An entity has purchased an asset with a 10-year useful life. It will use an accelerated depreciation method for determining taxable profit or tax loss. For determining accounting profit, it will use straight-line depreciation.

NEW QUESTION: 241

The rate of gross profit on Year 2 installment sales is:

- A. 20%
- B. 40%
- C. 50%
- D. 80%

Answer: A (LEAVE A REPLY)

The rate of gross profit on Year 2 installment sales is 20% [(US \$5,000 of Year 2 installment sales - \$4,000 cost of Year 2 installment sale) ÷ \$5,000 of Year 2 installment sales].

An entity sells goods on an installment basis. The table below includes information about the level of installment sales, the cost of the goods sold on installment, and the cash receipts on installment sales for Year 1 through Year 3. All cash receipt amounts shown are net of any interest charges.

| | Year 1 | Year 2 | Year 3 |
|-------------------------------|-------------|------------|-------------|
| Installment sales | US \$10,000 | US \$5,000 | US \$20,000 |
| Cost of installment sales | 6,000 | 4,000 | 10,000 |
| Cash receipts on Year 1 sales | 2,000 | 4,000 | 4,000 |
| Cash receipts on Year 2 sales | | 1,000 | 2,000 |
| Cash receipts on Year 3 sales | | | 4,000 |

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NEW QUESTION: 242

Quality cost indices are often used to measure and analyze the cost of maintaining a given level of quality. One example of a quality cost index, which uses a direct labor base, is computed as:

$$\text{Quality cost index} = \frac{\text{Total quality costs}}{\text{Total direct labor costs}} \times 100$$

The following quality cost data were collected for May and June:

| | May | June |
|------------------------|-------------|-------------|
| Prevention costs | US \$ 4,000 | US \$ 5,000 |
| Appraisal costs | 6,000 | 5,000 |
| Internal failure costs | 12,000 | 15,000 |
| External failure costs | 14,000 | 11,000 |
| Direct labor costs | 90,000 | 100,000 |

Based upon these cost data, the quality cost index:

- A. Decreased four points from May to June.
- B. Was unchanged from May to June.
- C. Increased 10 points from May to June.
- D. Decreased 10 points from May to June.

Answer: A (LEAVE A REPLY)

The index for May was 40 [(US \$4,000 + \$6,000 + \$12,000 + \$14,000) ÷ \$90,000], and the index for June was 36 [(US \$5,000 + \$5,000 + \$15,000 + \$11,000) ÷ \$100,000].

NEW QUESTION: 243

The management discussion and analysis section of a company's annual report typically contains:

- A. A description of the company's primary business and segments.
- B. A discussion of the company's operating results.
- C. A discussion of the future prospects of the company.
- D. All of the answers are correct.

Answer: (SHOW ANSWER)

The MD&A section addresses capital resources, liquidity, and operating results.

Management must also identify trends and discuss significant events and uncertainties. Thus, the MD&A section typically includes a description of the company's primary business and segments. It reviews the operating results of the company, providing a breakdown of net sales and income by segment. It also contains prospective information on economic trends and market changes, and their potential effects on the company's future performance.

NEW QUESTION: 244

Cost allocation is the process of assigning indirect costs to a cost object. The indirect costs are grouped in cost pools and then allocated by a common allocation base to the cost object. The base that is employed to allocate a homogeneous cost pool should.

- A. Have a cause-and-effect relationship with the cost items in the cost pool.
- B. Assign the casts in the pool uniformly to cost objects even if the cost objects use resources in a non uniform way.
- C. Be a nonfinancial measure e.g., number of setups) because a nonfinancial measure is more objective.
- D. Have a high correlation with the cost items in the cost pool as the sole criterion for selection.

Answer: (SHOW ANSWER)

A cost allocation base is the common denominator for systematically correlating indirect costs and a cost object. The cost driver of the indirect costs is ordinarily the allocation base. In a homogeneous cost pool, all cost should have the same or a similar cause-andeffect relationship with the cost allocation base.

NEW QUESTION: 245

Only two companies manufacture Product A. The finished product is identical regardless of which company manufactures it. The cost to manufacture Product A is US\$1, and the selling price is US \$2. One company considers reducing the price to achieve 100% market share but fears the other company will respond by further reducing the price. Such a scenario would involve a:

- A. No-win strategy.
- B. Dual-win strategy.
- C. One win-one lose strategy.
- D. Neutral strategy.

Answer: A (LEAVE A REPLY)

If both firms reduce the selling price of Product A, neither will gain sales and the resultant price war will cause both firms to earn lower profits. This outcome is inevitable when reduced profit margins do not result in a significant increase in sales. This is classified as a no-win strategy.

NEW QUESTION: 246

For the year just ended, the entity had a rate of return on equity, rounded to two decimals, of:

- A. 31.21%
- B. 58.06%
- C. 67.50%
- D. 71.68%

Answer: A (LEAVE A REPLY)

Rate of return on equity, a profitability ratio, measures the rate of return on investment. The ratio equals profit minus any preference dividends) divided by average ordinary equity.

$$\begin{aligned} &= \frac{\text{Sales} - \text{CGS} - \text{Adm. Exp.} - \text{Deprec.} - \text{Interest} - \text{Tax}}{(\text{Beginning Ordinary Equity} + \text{Ending Ordinary Equity}) \div 2} \\ &= \frac{\text{US } \$600,000 - \$400,000 - \$35,000 - \$10,000 - \$20,000 - \$67,500}{(\text{US } \$182,500 + \$250,000) \div 2} \\ &= \frac{\text{US } \$67,500}{\text{US } \$216,250} \\ &= 31.21\% \end{aligned}$$



NEW QUESTION: 247

For the year just ended the entity has times-interest-earned of:

- A. 3.375 times
- B. 6.75 times
- C. 7.75 times
- D. 9.5 times

Answer: C (LEAVE A REPLY)

The TIE ratio is a leverage ratio_ It emphasizes the ability to pay interest expense. The ratio equals profit before interest and taxes divided by interest

$$\begin{aligned} &= \frac{(\text{Sales} - \text{CGS} - \text{Administrative Expense} - \text{Depreciation})}{\text{Interest Expense}} \\ &= \frac{\text{US } \$600,000 - \$400,000 - \$35,000 - \$10,000}{\text{US } \$20,000} \\ &= 7.75 \text{ times} \end{aligned}$$



C:\Documents and Settings\usernwz1\Desktop\1.PNG RST Corporation's Income Statement for Year 5 and Year 6



The Institute of Internal Auditors

| | Year 6 | Year 5 |
|-----------------------------|---------------------|---------------------|
| Sales (all are credit) | US \$285,000 | US \$200,000 |
| Cost of goods sold | 150,000 | 120,000 |
| Gross profit | 135,000 | 80,000 |
| S and A expense | 65,000 | 36,000 |
| Profit bef. int. & inc. tax | 70,000 | 44,000 |
| Interest expense | 3,000 | 3,000 |
| Profit before income tax | 67,000 | 41,000 |
| Income tax expense | 27,000 | 16,000 |
| Profit | <u>US \$ 40,000</u> | <u>US \$ 25,000</u> |

RST Corporation's Balance Sheets End of Year 5 and Year 6

| Assets | Year 6 | Year 5 |
|-----------------------------------|---------------|---------------|
| Current assets | | |
| Cash | US \$ 5,000 | US \$ 4,000 |
| Financial assets held for trading | 3,000 | 2,000 |
| Accounts receivable (net) | 16,000 | 14,000 |
| Inventory | 30,000 | 20,000 |
| Total current assets | <u>54,000</u> | <u>40,000</u> |

| Assets | Year 6 | Year 5 |
|-----------------------------------|---------------------|---------------------|
| Current assets | | |
| Cash | US \$ 5,000 | US \$ 4,000 |
| Financial assets held for trading | 3,000 | 2,000 |
| Accounts receivable (net) | 16,000 | 14,000 |
| Inventory | 30,000 | 20,000 |
| Total current assets | <u>54,000</u> | <u>40,000</u> |
| Noncurrent assets: | | |
| Long-term investments | 11,000 | 11,000 |
| PP&E | 80,000 | 70,000 |
| Intangibles | 3,000 | 4,000 |
| Total assets | <u>US \$148,000</u> | <u>US \$125,000</u> |

| Liabilities and Equity | Year 6 | Year 5 |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable | US \$ 11,000 | US \$ 7,000 |
| Accrued payables | 1,000 | 1,000 |
| Total current liabilities | 12,000 | 8,000 |
| Bonds payable, 10%, due Year 12 | 30,000 | 30,000 |
| Total liabilities | <u>\$ 42,000</u> | <u>\$ 38,000</u> |
| Equity: | | |
| Ordinary shares, 2,400 shares, US \$10 par | \$ 24,000 | \$ 24,000 |
| Retained earnings | 82,000 | 63,000 |
| Total equity | <u>106,000</u> | <u>87,000</u> |
| Total liabilities and equity | <u>US \$148,000</u> | <u>US \$125,000</u> |

The market value of RST's ordinary stock at the end of Year 6 was US \$100.00 per share.

NEW QUESTION: 248

Which one of the following input controls or edit checks would catch certain types of errors within the payment amount field of a transaction?

- A. Record count.
- B. Echo check.
- C. Check digit.
- D. Limit check.

Answer: D (LEAVE A REPLY)

A limit, reasonableness, or range test determines whether an amount is within a predetermined limit for given information. It can only detect certain errors i.e., those that exceed the acceptable limit).

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