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Updated 265 Questions [Q22-Q45]



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### NEW QUESTION 22

A domestic company has sales divisions in country X and country Y. The company sells only one product. Which costs US \$20 per unit to produce. There are no trade barriers or tariffs among the three countries. Information specific to each of the three countries is as follows:

<u>Country</u>	<u>Corporate Tax Rate</u>	<u>Before-Tax Selling Price</u>	<u>Quantity Sold</u>	<u>Additional Costs</u>
Home	50%	US \$30	1,500	US \$10,000
X	60%	US \$40	1,000	US \$12,500
Y	40%	US \$35	2,000	US \$11,000

When selling items to its sales division s) in <List A>. the Company should set the <List B>

allowable transfer price.

	List A	List B
A.	Countries X and Y	Highest
B.	Countries X and Y	Lowest
C.	Country X	Highest
D.	Country Y	Highest

- \* Option A
- \* Option C
- \* Option C
- \* Option D

Country X has a higher tax rate than the home country, so the incentive is to transfer profits out of country K. The sales division in country X will be less profitable if it is charged a high transfer price, hence pay less tax.

### NEW QUESTION 23

Which of the following is the best example of a compliance risk that is likely to arise when adopting a bring-your-own-device (BYOD) policy?

- \* The risk that users try to bypass controls and do not install required software updates.
- \* The risk that smart devices can be lost or stolen due to their mobile nature..
- \* The risk that an organization intrusively monitors personal information stored on smart devices.
- \* The risk that proprietary information is not deleted from the device when an employee leaves.

### NEW QUESTION 24

Shown below is a forecast of sales for the first 4 months of the year all amounts are in thousands of dollars).

	January	February	March	April
Cash sales	US \$ 15	US \$ 24	US \$18	US \$14
Sales on credit	100	120	90	70

On average, 50% of credit sales are paid for in the month of sale, 30% in the month following the sale, and the remainder is paid 2 months after the month of sale. Assuming there are no bad debts, what is the expected cash inflow in March?

- \* US \$138,000
- \* US \$122,000
- \* US \$119,000
- \* US \$108,000

Cash inflows for March would consist of 50% of March credit sales  $US \$90 \times 50\% = US \$45$ ). Plus 30% of February credit sales  $US \$120 \times 30\% = US \$36$ ). plus 20% of January credit sales  $US \$11 \times 20\% = US \$20$ ). plus cash sales for March of  $US \$18$ .

Consequently, total collections equal  $US \$118,000$ .

### NEW QUESTION 25

If two entities, entity X and entity Y, are alike in all respects except that entity X employs more debt financing and less equity financing than entity Y does. which of the following statements is true?

- \* Entity X has more net earnings variability than entity Y.
- \* Entity X has more operating earnings variability than entity Y.

- \* Entity X has less operating earnings variability than entity Y.
- \* Entity X has less financial leverage than entity Y.

Given that entity X is more highly leveraged, it has greater fixed financing charges than entity Y. Interest payments are fixed financing charges, but ordinary share dividends are not. As a result, entity X will be more risky and therefore will have a more volatile net income stream than entity Y. if other factors are, constant.

### NEW QUESTION 26

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

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

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 27

While auditing a marketing department, the internal auditor discovered that the product life cycle model was used to structure the marketing mix. The manager has asked the auditor for advice about increasing advertising of various products. During which stage of the life cycle would it be appropriate to advertise that the entity's product is the lowest price and best quality of all competitors?

- \* Introduction stage.
- \* Growth stage.
- \* Maturity stage.
- \* Decline stage.

The maturity stage is the ideal time for advertising lower prices and superior quality because this is the period during a products life when competition is greatest Due to the availability of many substitutes an entity has reasons to set itself apart. Because price and quality are both concerns of customers during the maturity stage it is an ideal time for the entity to differentiate its product by advertising low prices and higher quality.

### NEW QUESTION 28

If a just-in-time purchasing system 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?

Cost Category to Increase	Cost Category to Decrease
1. Purchasing costs	Stockout costs
2. Purchasing costs	Quality costs
3. Quality costs	Ordering costs
4. Stockout costs	Carrying costs

- \* 1
- \* 2
- \* 3

\* 4

### NEW QUESTION 29

In an organization that produces chocolate, the leadership team decides that the organization will open a milk production facility for its milk chocolate. Which of the following strategies have the organization chosen?

- \* Vertical integration.
- \* Unrelated diversification.
- \* Differentiation
- \* Focus

### NEW QUESTION 30

A characteristic of the payback method (before taxes) is that it:

- \* Incorporates the time value of money.
- \* Neglects total project profitability.
- \* Uses accrual accounting inflows in the numerator of the calculation.
- \* Uses the estimated expected life of the asset in the denominator of the calculation.

The payback method calculates the number of years required to complete the return of the original investment. This measure is computed by dividing the net investment required by the average expected cash flow to be generated, resulting in the number of years required to recover the original investment. Payback is easy to calculate but has two principal problems: it ignores the time value of money, and it gives no consideration to returns after the payback period. Thus, it ignores total project profitability.

### NEW QUESTION 31

According to IIA guidance, which of the following is a primary component of a network security strategy?

- \* Application input controls
- \* Firewall controls.
- \* Transmission encryption controls
- \* Change management controls

### NEW QUESTION 32

A supervisor receives a complaint from an employee who is frustrated about having to learn a new software program. The supervisor responds that the new software will enable the employee to work more efficiently and with greater accuracy. This response is an example of:

- \* Empathetic listening.
- \* Reframing.
- \* Reflective listening.
- \* Dialogue.

### NEW QUESTION 33

Which of the following statements about voice communications is true?

- \* Modern voice recognition input devices have large vocabularies and short training periods.
- \* A voice output device converts speech into digital data.
- \* Cell phones and PCS services use the same frequency radio waves.
- \* Pagers can alert users to the receipt of messages but cannot transmit text.

Voice recognition input devices provide an alternative to keyboard input. These systems compare the speaker's voice patterns with prerecorded patterns. Advanced systems now have large vocabularies and shorter training periods. They allow for

dictation and are not limited to simple commands.

### NEW QUESTION 34

Which of the following is a result of Implementing on e-commerce system, which relies heavily on electronic data interchange and electronic funds transfer, for purchasing and biting?

- \* Higher cash flow and treasury balances.
- \* Higher inventory balances
- \* Higher accounts receivable.
- \* Higher accounts payable

### NEW QUESTION 35

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?

- \* Management decision making may be impaired due to diminished responsiveness to management's requests for computerized information.
- \* Management may be less capable of reacting quickly to competitive pressures due to increased application development time.
- \* 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.
- \* Management may incur increased application development and maintenance costs for EUC systems, compared with traditional mainframe) systems.

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 36

What selling price would the company have to charge for its product in Year 2 to maintain the same contribution margin percentage rate as in Year 1?

- \* US \$6180
- \* US \$6400
- \* US \$6450
- \* US \$7200

The CMR equals unit contribution margin (UCM) divided by unit selling price. The UCM equals the unit selling price minus unit variable cost. The original unit selling price was US \$60 (\$9,000,000 revenue / 150,000 units), and the original unit variable cost was US \$27 [(\$1,800,000 + \$720,000 + \$1,080,000 + \$450,000) / 150,000 units]. The original CMR was therefore US \$.55 [(\$60 - \$27) / \$60]. The new unit variable cost was calculated as US \$28.80. Accordingly the unit selling price (X) is US \$64.

$$\begin{aligned}(X - \text{US } \$28.80) / X &= \text{US } \$.55 \\ X - \text{US } \$28.80 &= \text{US } \$.55X \\ \text{US } \$.45X &= \text{US } \$28.80 \\ X &= \text{US } \$28.8 / .45 \\ X &= \text{US } \$64\end{aligned}$$

### NEW QUESTION 37

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:

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

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 (1) minimization of inventories held by suppliers, manufacturers, and retailers; (2) avoidance of stock outs; (3) fewer rush orders; and (4) production as needed by retailers.

### NEW QUESTION 38

Which of the following is a primary driver behind the creation and prioritization of new strategic initiatives established by an organization?

- \* Risk tolerance.
- \* Performance.
- \* Threats and opportunities.
- \* Governance.

### NEW QUESTION 39

A vendor sells specialty inks on consignment to a manufacturer of colored paper at a price of US \$200 per barrel. Payment is made to the vendor in the month the manufacturer uses the barrels in production. The vendor records revenues when the barrels are shipped and makes no adjusting entries to record unearned revenues until the December 31 closing of the books. At the end of July the manufacturer had 40 barrels of ink on consignment.

During August, the vendor consigned 50 barrels and received payment for 30 barrels. Another five barrels were returned to the vendor by the manufacturer for credit. At the end of August, what is the amount of unearned revenue contained in the vendor's accounts receivable from the manufacturer?

- \* US \$3,000
- \* US \$4,000
- \* US \$11,000
- \* US \$12,000

Under a consignment arrangement the consignor ships merchandise to the consignee who acts as agent for the consignor in selling the goods. The goods are in the physical possession of the consignee but remain the property of the consignor and are included in the consignor's inventory. Revenue and the related cost of goods sold from these consigned goods should only be recognized by the consignor when the merchandise is sold and delivered to the final customer. Accordingly, recognition occurs when notification is received that the consignee has sold the goods. Only then are the recognition criteria for a sale of goods satisfied: The enterprise has transferred the significant risks and rewards of ownership, the enterprise has neither continuing managerial involvement to an extent associated with ownership nor effective control over the goods, the amount can be reliably measured, it is probable that the economic benefits will flow to the enterprise, and transactional costs can be reliably measured. In this consignment arrangement, 30 barrels have been paid for, so the revenue is recognized for these barrels. The five barrels returned are not included in unearned revenue because they constitute a return of consigned goods. Accordingly, the amount of inappropriately recognized revenue is US \$11,000 [(40 consigned + 50 consigned - 30 paid for - 5 returns) x \$200].

### NEW QUESTION 40

While auditing a marketing department, the internal auditor discovered that the product life cycle model was used to structure the marketing mix. Under such a philosophy, the price charged on a consistent basis for a specific product would probably be lowest

during which life cycle stage?

- \* Introduction stage.
- \* Growth stage.
- \* Maturity stage.
- \* Decline stage.

During the maturity } stage, competition is at its greatest and costs are at their lowest.

Moreover, entities are engaged in competitive price-cutting measures, resulting in some of the lowest prices seen during a product's life cycle.

**NEW QUESTION 41**

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:

- \* Sequence check.
- \* A check digit.
- \* Cross-footing.
- \* Field check.

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 42**

The economic value of an entity will rise following an increase in:

- \* Net cash flow.
- \* Systematic risk.
- \* Unsystematic risk.
- \* The discount rate.

Net cash flow represents the numerator in the formula used to derive the value of the entity. Therefore, the economic value of the entity will increase as net cash flow increases. Presented below are partial year-end financial statement data for entities.

	<u>A</u>	<u>B</u>
Cash	US \$100	US \$200
Accounts receivable	unknown	100
Inventories	unknown	100
Net fixed assets	200	100
Accounts payable	100	50
Long-term debt	200	50
Ordinary shares	100	200
Retained earnings	150	100
	<u>A</u>	<u>B</u>
Sales	US \$600	US \$5,800
Cost of goods sold	300	5,000
Administrative expenses	100	500
Depreciation expense	100	100
Interest expense	20	10
Income tax expense	40	95
Profit	40	95

**NEW QUESTION 43**

During the past few years, Wilder Company has experienced the following average number of power outages:

<u>Number per Month</u>	<u>Number of Months</u>
0	3
1	2
2	4
3	3
	<u>12</u>



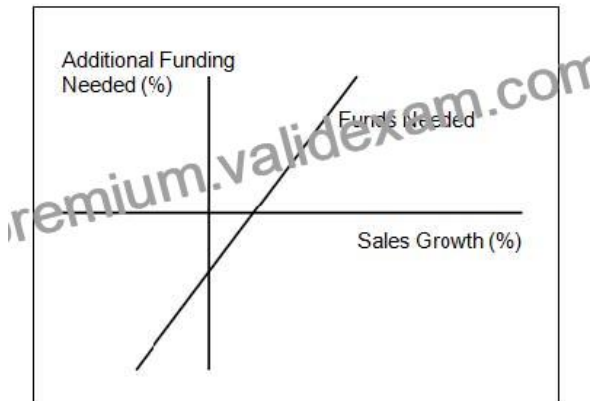
Each power outage results in out-of-pocket costs of US \$800. For US \$1,000 per month, Wilder can lease a generator to provide power during outages. If Wilder leases a generator in the coming year, the estimated savings (or additional expense) for the year will be:

- \* US \$(15,200)
- \* US \$(1,267)
- \* US\$3,200
- \* US\$7,200

Each outage costs US \$800, but this expense can be avoided by paying US \$1,000 per month (US \$12,000 for the year). The expected-value approach uses the probability distribution derived from past experience to determine the average expected outages per month.

#### NEW QUESTION 44

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?

- \* The Funds Needed line will remain pointed upward, but will become less steep.
- \* The Funds Needed line will remain pointed upward, but will become more steep.
- \* The Funds Needed line will point downward with a minimal slope.
- \* The Funds Needed line will point downward with an extreme slope.

#### NEW QUESTION 45

A manager has difficulty motivating staff to improve productivity, despite establishing a lucrative individual reward system. Which of the following is most likely the cause of the difficulty?

- \* High degree of masculinity.
- \* Low uncertainty avoidance.
- \* High collectivism.
- \* Low long-term orientation.



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