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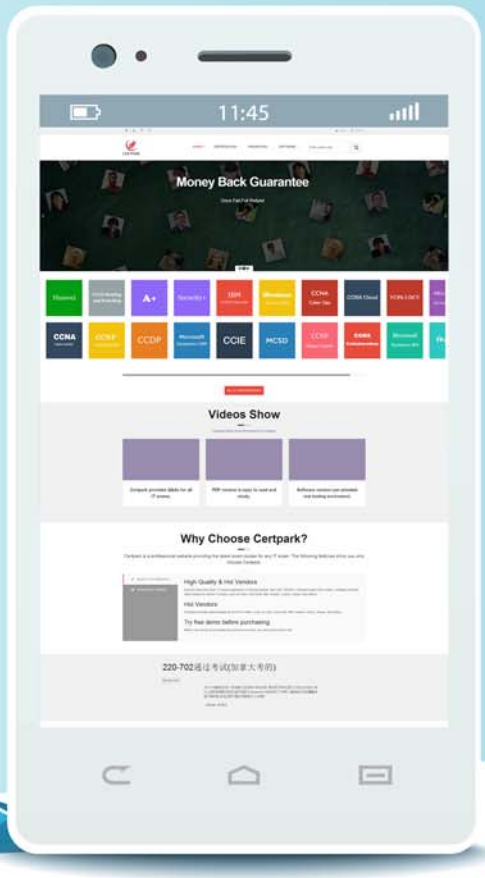

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Exam : **IIA-CIA-Part3**

Title : Certified Internal Auditor - Part 3 study guide with online review

Version : Demo

1.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: A
Explanation:
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.

2.If a manufacturer has established a limit on the number of defects that are tolerable in the final assembly of its product, which of the following quality control procedures should be employed?
I. Inspect completed goods for compliance with established tolerances.
II. Review sales returns for defects not detected during the final inspection process.
III. Compare materials and machinery specifications with original product designs.
IV. Establish a quality circle that includes management and subordinates to discuss labor efficiency.
A. I, III, and IV.
B. II and III only.
C. I, II, and III.
D. Ill and IV only.
Answer: C
Explanation:
Inspecting goods after completion of the production process and counting defective goods returned by customers are product quality procedures. They measure the level of product conformance with customer expectations. Verifying materials and machinery specifications are process quality procedures because they emphasize the inputs to the process and the process itself.

3.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
Explanation:
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.

4.Management of a company is attempting to build a reputation as a world-class manufacturer of quality products.
Which of the following measures would not be used by the firm to measure quality?

A. The percentage of shipments returned by customers because of poor quality.
B. The number of parts shipped per day.
C. The number of defective parts per million.
D. The percentage of products passing quality tests the first time
Answer: B
Explanation:
The number of parts shipped per day would most likely be used as a measure of the effectiveness and efficiency of shipping procedures, not the quality of the product. This measure does not consider how many of the parts are defective.

5.Which of the following is not an appropriate measure of quality?
A. Market share.
B. Delivery performance.
C. Customer satisfaction.
D. Raw materials costs.
Answer: D
Explanation:
Emphasizing lower input costs may result in more defective output, and higher input costs may or may not reflect the procurement of better raw materials. Financial measures are thus mostly unsuitable for measuring quality.

6.Which of the following criteria would be most useful to a sales department manager in evaluating the performance of the manager's customer-service group?
A. The customer is always right.
B. Customer complaints should be processed promptly.
C. Employees should maintain a positive attitude when dealing with customers.
D. All customer inquiries should be answered within 7 days of receipt.
Answer: D
Explanation:
A criterion that requires all customer inquiries to be answered within 7 days of receipt permits accurate measurement of performance. The quantitative and specific nature of the appraisal using this standard avoids the vagueness, subjectivity, and personal bias that may afflict other forms of personnel evaluations.

7.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
Explanation:
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.

8.Quality control circles are now used all over the world. The circles typically consist of a group of five to ten employees who meet regularly.
The primary goal of these circles is to:
A. Improve the quality of leadership in the organization.
B. Tap the creative problem-solving potential of every employee.
C. Improve communications between employees and managers by providing a formal communication channel
D. Allow for the emergence of team leaders who can be targeted for further leadership development.
Answer: B
Explanation:
Quality control circles are used to obtain voluntary input from employees to promote problem solving. Potential benefits include lower costs, better employer-employee relations, and greater employee commitment.

9.A company with many branch stores has decided to use its best-performing store as a benchmark organization for the purpose of analyzing the accuracy and reliability of branch store financial reporting.
Which one of the following is the most likely measure to be included in a financial benchmark?
A. High turnover of employees.
B. High level of employee participation in setting budgets.
C. High amount of bad debt write-offs.
D. High number of suppliers.
Answer: C
Explanation:
Internal benchmarking is the application of best practices in one part of the organization (e.g., a high-performing branch store) to its other parts (other branches). This process requires, among other things, use of quantitative and qualitative measures. A key indicator for financial performance measurement is the amount of bad debt write-offs. A high level of bad debt write-offs could indicate fraud, which would compromise the accuracy and reliability of financial reports. Bad debt write-offs may result from recording fictitious sales.

10.The management and employees of a large household goods moving company believe that it if became nationally known as adhering to total quality management and continuous improvement, one result would be an increase in the company's profits and market share.
What should the company focus onto achieve quality more economically?
A. Appraisal costs.
B. Prevention costs.
C. Internal failure costs.
D. External failure costs.
Answer: B
Explanation:
Prevention costs are incurred to prevent defects. Prevention is ordinarily less costly than the combined

costs of appraisal, internal failure, and external failure.

11.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
Explanation:
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.

12.The four categories of costs associated with product quality costs are:
A. External failure, internal failure, prevention, and carrying.
B. External failure, internal failure, prevention, and appraisal.
C. External failure, internal failure, training, and appraisal.
D. Warranty, product liability, training, and appraisal.
Answer: B
Explanation:
Prevention costs are incurred to prevent defects. Appraisal costs are incurred to detect defective output during and after the production process. Internal failure costs are associated with defective output discovered before shipping. External failure costs are associated with defective output discovered after it has reached the customer.

13.Which of the following costs of quality is a failure cost?
A. Systems development costs.
B. Costs of inspecting in-process items.
C. Contract penalty for delivery of nonconforming goods.
D. Costs of quality circles.
Answer: C
Explanation:
Failure costs are incurred after defective output has been removed from production. A contract penalty for faulty goods is an example of an external failure cost.

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

Cost Items	Scrap material
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	150 000
Manufacturing rework labor and overhead	68 000
Materials used in warranty repairs	180 000

Process engineering	145 000
Product-liability claims	35 000
Product-testing equipment	22 000
Repairs to equipment due to breakdowns	90 000
Scheduled equipment maintenance	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

Explanation:

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).

15.The costs of quality that are incurred in detecting units of product that do not conform to product specifications are referred to as:

A. Prevention costs.
B. Appraisal costs.
C. Rework costs.
D. Failure costs.

Answer: B

Explanation:

Appraisal activities include inspection and testing. Appraisal costs (such as test equipment maintenance and destructive testing) are incurred to detect products not conforming to specifications.

16.Listed below are selected line items from the cost-of-quality report for Company B for last month Category:

Category	Amount
Rework	US $ 725
Equipment maintenance	1,154
Product testing	786
Product repair	695

What is Company B's total prevention and appraisal cost for last month?

A. US$786
B. US$1,154
C. US$1,940
D. US$2,665

Answer: C

Explanation:

Answer (C) is correct. Prevention costs are incurred to prevent defects from occurring. An example is equipment maintenance. Appraisal costs are incurred to detect defective output during and after the production process. An example is product testing. Thus, total prevention and appraisal cost for the month equals US $1,940 (US$1,154 + US $786).

17.All of the following are generally included in a cost-of-quality report except:
A. Warranty claims.
B. Design engineering.
C. Supplier evaluations.
D. Lost contribution margin.
Answer: D
Explanation:
A cost-of-quality report includes most costs related to quality, specifically the costs of prevention, appraisal, internal failure, and external failure.

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

Summary Cost-of-Quality Report (O00s)

	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	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 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: A
Explanation:
Answer (A) is correct. 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.

19.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

Explanation:

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].

20.Quality cost indices are often used to measure and analyze the cost of maintaining or improving the level of quality. Such indices are computed by dividing the total cost of quality over a given period by some measure of activity during that period (for example, sales dollars). The following cost data are available for a company for the month of March.

The company's quality cost index is calculated using total cost of quality divided by sales dollars.

Sales	US $400,000
Direct materials cost	100,000
Direct labor cost	80,000
Testing and inspection cost	6,400
Scrap and rework cost	16,800
Quality planning cost	2,800
Cost of customer complaints and returns	4.000

The quality cost index for March is:

A. 7.5

B. 6.5

C. 22.0

D. 5.9

Answer: A

Explanation:

The total cost of quality equals the sum of prevention costs (quality planning), appraisal costs (inspection and testing), internal failure costs (scrap and rework), and external failure costs (customer complaints and returns), or US $30,000 ($2,800 + $6,400 + $16,800 + $4,000). Thus, the quality cost index for March is 7.5 [(US $30,000 - US $400,000) x 100].