

# CIA Part 3 - Internal Audit Knowledge Elements

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(s): A**

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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. III and IV only.

**Answer(s): C**

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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(s): A**

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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(s): B**

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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(s): D**

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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(s): D**

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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(s): D**

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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(s): B**

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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(s): C**

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10. The management and employees of a large household goods moving company believe that if it 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(s): B**

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**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(s): C**

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**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(s): B**

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**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(s): C**

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

<u>Cost Items</u>	<u>Amount</u>
Design reviews	\$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(s): B**

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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(s): B**

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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(s): C**

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(s): D**

18. 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(s): A**

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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:

	<u>May</u>	<u>June</u>
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(s): A**

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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 \$400,00
Direct materials cost	100,00
Direct labor cost	80,00
Testing and inspection cost	6,40
Scrap and rework cost	16,80
Quality planning cost	2,80
Cost of customer complaints and returns	4,00

The quality cost index for March is:

A. 7.5

B. 6.5

C. 22.0

D. 5.9

**Answer(s):** A

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