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QUESTION 1

Which of the following is a reason for a firm to remain in an industry despite poor profits?

- A. Lack of vertical integration.
- B. Economies of scale are not significant.
- C. The firm's assets have a low liquidation value.
- D. Distribution channels are willing to accept new products.

Correct Answer: C

Specialized assets and inventory in a declining industry may have a low liquidation value. Few purchasers who wish to operate in the same industry may be available. Durable assets may have a carrying amount far greater than the liquidation value. Hence, liquidation may result in a loss that the firm may not wish to recognize. Furthermore, a low liquidation value means that the future discounted cash flows from remaining in the industry may exceed the opportunity cost of the capital invested in the declining industry. Thus, the returns from the proceeds of liquidation may be less than the returns from keeping those assets in the business.

QUESTION 2

The most likely span of control to apply over 14 data-entry clerks who do essentially the same job and work in the same office would be:

- A. Close.
- B. Narrow.
- C. Moderate.
- D. Wide.

Correct Answer: D

In any situation, there are underlying variables that influence the number of subordinates a manager can supervise. In general, if jobs are similar, procedures are standardized, and physical dispersion is minimized, a wide span of control is most effective.

QUESTION 3

A global industry is one that:

- A. Contains competitors that are multinationals.
- B. Has secured a competitive advantage based on economies of scale in centralized production.
- C. Has a strategic advantage by establishing coordinated competition in many national markets.
- D. Has made large direct investments abroad.



Correct Answer: C

The analysis of a competition in an industry requires consideration of the economics of the industry and the characteristics of competitors. However, in a global industry, the analysis is not limited to one market, but extends to all markets (geographic or national) taken together. Michael E. Porter defines a global industry as one in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. "Thus, an industry becomes global because it perceives a net strategic advantage to competing, as Porter says, in a coordinated way in many national markets."

QUESTION 4

A large company uses assembly line techniques to manufacture a single product. Its choice of relatively mechanistic organizational design was more likely based on its:

- A. Need for rapid response to environmental change.
- B. Primary concern for operational efficiency.
- C. Low fixed technology requirements.
- D. Project management emphasis.

Correct Answer: B

Mechanistic organizations have vertical structures with duties and authority clearly defined by position in the hierarchy, a stringent set of formal controls, and a centralized staff. Such organizations tend to emphasize efficiency and operate in a stable environment with well-established technology. Large firms in basic industries (autos, utilities) often adopt this structure.

QUESTION 5

Patents are granted to encourage firms to invest in the research and development of new products. Patents are an example of

- A. Vertical integration.
- B. Market concentration.
- C. Entry barriers.
- D. Collusion.

Correct Answer: C

Entry barriers exist in all market structures other than perfect competition. The fewer the firms in an industry, the greater the barriers tend to be. Entry barriers include the existence of substantial economies of scale (low unit costs can be achieved only by large producers). They also include barriers created by existing firms. For example, large advertising expenditures may be necessary to compete. Control of raw materials or technology is another barrier. Consequently, patents held by existing firms may serve as an entry barrier because they prevent potential competitors from using certain technology. Patents are rights granted by the federal government to inventors to allow them the exclusive use of their inventions for a specific.



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