

TEST BANK

Accounting
Information Systems



TENTH EDITION

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Chapter 2 (new version)

MULTIPLE CHOICE

1. An agreement between two entities to exchange goods or services or any other event that can be measured in economic terms by an organization is
 - a) give-get exchange
 - b) transaction
 - c) revenue
 - d) processing cycle

2. Groups of related business activities such as the acquisition of merchandise and payment of vendors are called
 - a) transaction cycles.
 - b) economic cycles.
 - c) business events.
 - d) transactions.

3. The transaction cycles approach leads to efficient processing of large number of transactions because
 - a) transaction cycles are easier to computerize.
 - b) a large number of transactions within a given cycle can be categorized into a relatively small number of distinct types.
 - c) the transaction cycle approach represents the natural order of business.
 - d) transaction cycles are easy to understand.

4. The basic "give and take" functions of a business have been grouped into transaction cycles. The cycle that includes the events of hiring employees and paying them is known as the
 - a) revenue cycle.
 - b) expenditure cycle.
 - c) human resources cycle.
 - d) financing cycle.

5. What is the major difference between the revenue and the expenditure cycle?
 - a) The revenue cycle includes marketing activities; the expenditure cycle does not.
 - b) In the revenue cycle, cash is received; in the expenditure cycle cash is paid out.
 - c) The expenditure cycle includes paying employees.
 - d) The revenue cycle includes the activity of obtaining funds from investors.

6. The business owners obtain financing from outside investors, which results in an inflow of cash into the company. This transaction is considered to be part of which cycle?
 - a) the revenue cycle
 - b) the payroll cycle
 - c) the production cycle
 - d) the financing cycle

7. Which of the following is *not* a transaction cycle?
 - a) revenue
 - b) expenditure
 - c) human resources
 - d) general ledger and reporting

8. All transaction cycles feed information directly into the
 - a) financial statements.
 - b) governmental reports.
 - c) general ledger and reporting system.
 - d) financing operations.

9. Transaction cycles can be summarized on a high level as "give-get" transactions. An example of "give-get" in the expenditure cycle would be
 - a) give cash, get cash.
 - b) give cash, get goods.
 - c) give cash, get labor.
 - d) give goods, get cash.

10. Transaction cycles can be summarized on a high level as "give-get" transactions. An example of "give-get" in the revenue cycle would be
 - a) give cash, get goods.
 - b) give goods, get cash.
 - c) give cash, get labor.
 - d) give cash, get cash.

11. The transaction cycles relate to one another and interface with this to generate information for both management and external parties.
 - a) general ledger and reporting system
 - b) accounting information systems
 - c) computer processor
 - d) human resources cycle

12. Many modern accounting software packages offer separate transaction cycle modules. What is the reason for this?
 - a) Every organization does not need to implement all of the available transaction cycle modules.
 - b) Most businesses do not need the revenue cycle module as part of their AIS.
 - c) The nature of a given transaction cycle is the same irrespective of the type of organization.
 - d) A properly designed AIS does not use the concept of separate business transaction cycles to process transactions.

13. Which of the following statements is *false*?
 - a) Retail stores do not have a production cycle.

- b) Financial institutions have installment-loan cycles.
 - c) A service company does not have an inventory system.
 - d) Every organization should implement every transaction cycle module.
14. The operations performed on data to generate meaningful and relevant information are referred to as
- a) general ledger and reporting system
 - b) accounting information system
 - c) financial reporting
 - d) data processing cycle
15. One of the steps in the data processing cycle is data input. What is the catalyst for data input into a system?
- a) The production transaction system automatically checks each hour to see if any new data is available for input and processing.
 - b) The performance of some business activity generally serves as the trigger for data input.
 - c) A general ledger program is queried to produce a trial balance at the end of an accounting period.
 - d) Data is only input when an authorized party permits the input to occur.
16. A typical source document could be
- a) in some paper form.
 - b) a computer data entry screen.
 - c) a notepad entry.
 - d) both A and B
17. Which step below is *not* considered to be part of the data processing cycle?
- a) data input
 - b) feedback from external sources
 - c) data storage
 - d) data processing
18. Data must be collected about three facets of each business activity. What are they?
- a) the business activity, the resources it affects, the people who participate
 - b) the business activity, the transactions it creates, the impact on the financial statements
 - c) the inputs, outputs and processes used
 - d) who is involved, what was sold, how much was paid
19. Certain documents or forms are generated and/or processed with each transaction cycle. The issuing of a purchase order is part of which transaction cycle?
- a) the revenue cycle
 - b) the production cycle
 - c) the human resources cycle
 - d) the expenditure cycle

20. Certain documents or forms are generated and/or processed with each transaction cycle. The collection of job time tickets or time sheets is part of which transaction cycle?
- a) the revenue cycle
 - b) the production cycle
 - c) the human resources cycle
 - d) the expenditure cycle
21. Common source documents for the revenue cycle include all of the following except
- a) sales order.
 - b) receiving report.
 - c) delivery ticket.
 - d) credit memo.
22. Which of the following documents would be found in the expenditure cycle?
- a) delivery ticket
 - b) time card
 - c) journal voucher
 - d) purchase order
23. Businesses usually use some type of documents in the data input step of the data processing cycle. Documents that are sent to customers or suppliers and then sent back to the organization in the course of a business transaction are known as
- a) turnaround documents.
 - b) source documents.
 - c) source data automation.
 - d) rubber or bounce-back documents.
24. What is a primary example of source data automation?
- a) a utility bill
 - b) POS (point-of-sale) scanners in retail stores
 - c) a bill of lading
 - d) a subsidiary ledger
25. Pre-numbering of source documents helps to verify that
- a) all transactions have been recorded since the numerical sequence serves as a control.
 - b) no inventory has been misplaced.
 - c) documents have been used in order.
 - d) all cash has been collected.
26. Source documents generally help to improve accuracy in transaction processing because
- a) they specify which information to collect due to their structure.
 - b) standard information is preprinted on the document.

- c) they provide directions and steps for completing the form.
 - d) All of the above are correct.
27. When the sum of all entries in the subsidiary ledger equals the amount in the corresponding general ledger account, it is assumed that (select all that apply)
- a) the recording and posting processes are accurate.
 - b) all of the transaction cycles have been completed.
 - c) since the ledgers are in balance, adjusting entries are not required.
 - d) no errors exist in the subsidiary ledger and corresponding general ledger account.
28. The general ledger account that corresponds to a subsidiary ledger account is known as a
- a) dependent account.
 - b) attribute account.
 - c) entity account.
 - d) control account.
29. The systematic assignment of numbers or letters to items to classify and organize them is known as
- a) coding
 - b) chart of accounts
 - c) data input
 - d) pre-numbered documents
30. Pre-numbered checks, invoices and purchase orders are examples of
- a) sequence codes
 - b) block codes
 - c) group codes
 - d) hierarchical codes
31. A chart of accounts is an example of (select all that apply)
- a) sequence codes
 - b) block codes
 - c) group codes
 - d) hierarchical codes
32. Inventory items are often codes with these
- a) sequence codes
 - b) block codes
 - c) group codes
 - d) hierarchical codes
33. A listing of general ledger accounts by account number is called the
- a) chart of accounts.
 - b) listing of accounts.
 - c) trial balance.

- d) subsidiary accounts.
34. Regarding codes, which of the following is *false*?
- a) The code should be consistent with its intended use.
 - b) Codes should allow for growth in the number of items to be coded.
 - c) Coding systems should be as simple as possible.
 - d) Coding systems need not be consistent across divisions of an organization.
35. To be effective, the chart of accounts must
- a) be as concise as possible.
 - b) contain only five account categories.
 - c) limit account codes to 10 digits or less.
 - d) contain sufficient detail to meet the information needs of the specific organization's AIS.
36. The chart of accounts for a manufacturing corporation would include
- a) retained earnings.
 - b) common stock.
 - c) raw materials inventory.
 - d) all of the above
37. The chart of accounts of a corporate retail bookstore would probably include
- a) work-in-process inventory.
 - b) a drawing account.
 - c) retained earnings.
 - d) both A and C
38. In a chart of accounts using three digits for each account, each numeric digit has meaning to users of the AIS. For example, a numeric digit may represent either a major category of accounts, a primary financial subaccount within each category, or a specific account into which transaction data will be posted. Using this example, which digit position would best represent a primary financial subaccount within an account category?
- a) first
 - b) second
 - c) third
 - d) fourth
39. In transaction processing, generally which activity comes first?
- a) recording data in a journal
 - b) posting items to special journals
 - c) capturing data on source documents
 - d) posting data to a ledger

40. The efficiency of recording numerous business transactions can be best improved by the use of
- prenumbered source documents.
 - specialized journals.
 - posting references.
 - segregation of duties.
41. A general journal
- is used to record infrequent or non-routine transactions.
 - simplifies the process of recording large numbers of repetitive transactions.
 - records all detailed data for any general ledger account that has individual sub-accounts.
 - contains summary-level data for every account of the organization.
42. The general ledger
- is used to record infrequent or non-routine transactions.
 - simplifies the process of recoding large numbers of repetitive transactions.
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45. An audit trail
- provides the means to check the accuracy and validity of ledger postings.
 - is provided by the ledger and the general journal.
 - is automatically created in every computer-based information system.
 - is a characteristic of interest.
46. Something about which information is stored is
- attribute
 - database
 - entity
 - record

47. Characteristics of interest that need to be stored are
- attribute
 - database
 - entity
 - record
48. Computers store data by organizing smaller units of data into larger units, which have meaning to users. Data values that are stored in a physical space are called a
- field.
 - record.
 - file.
 - database.
49. Related records grouped together form a(n)
- field.
 - entity.
 - file.
 - database.
50. The set of fields that contain data about various attributes of the same entity forms a
- entity
 - record.
 - file.
 - database.
51. Concerning a master file, which of the following statements is false?
- It is conceptually similar to a ledger in a manual AIS.
 - It stores cumulative information about an organization's resources.
 - It exists across fiscal periods.
 - Its individual records are not changed.
52. Basic data storage concepts define both entities and attributes. An entity is something about which information is stored. Which item below would *not* be considered an entity?
- a customer address
 - a customer
 - an employee
 - an inventory item
53. Which of the following is conceptually similar to a journal in a manual AIS?
- database
 - master file
 - record
 - transaction file

54. Which of the following is not one of the four types of file processing?
- a) changing
 - b) updating
 - c) deleting
 - d) altering
55. Periodic updating of the data stored about resources and agents is
- a) On-line processing
 - b) real-time processing
 - c) batch processing
 - d) data processing
56. Concerning processing, which of the following statements is true?
- a) Batch processing ensures that stored information is always current.
 - b) Batch input is more accurate than on-line data entry.
 - c) On-line batch processing is a combination of real-time and batch processing.
 - d) Batch processing is almost never used.
57. Federal Express stated in one of its mission statements that "positive control of each package will be maintained by utilizing . . . electronic tracking and tracing systems." This is an example of which type of data processing?
- a) real-time processing which features immediate updating as to the location of packages
 - b) batch processing which features updating at fixed time periods
 - c) real-time processing which features updating at fixed time periods such as at the end of an accounting period
 - d) batch processing which features immediate updating as to the location of packages
58. Documents generated at the end of transaction processing activities are called
- a) financial statements
 - b) operational documents
 - c) reports
 - d) source documents
59. Which of the following is *not* a type of report provided to decision makers by the typical AIS?
- a) financial statements
 - b) customer satisfaction surveys conducted by third parties
 - c) managerial reports
 - d) All of the above reports are important to decision makers.
60. Which statement below regarding the AIS and managerial reports is *false*
- a) The AIS must be able to provide managers with detailed and operational information about the organization's performance.

- b) Both traditional financial measures and operational data are required for proper and complete evaluation of performance.
 - c) Most source documents capture both financial and operational data about business transactions.
 - d) Traditionally, most AIS systems have been designed so that both financial and operational data are stored in a manner that facilitates their integration in reports.
61. A formal expression of goals and objectives in financial terms is called a(n)
- a) mission statement.
 - b) strategic plan.
 - c) budget.
 - d) operational plan.
62. A projection of an organization's cash inflows and outflows is known as a(n)
- a) performance budget.
 - b) operating budget.
 - c) management budget.
 - d) cash budget.
63. Identify an example of external source data that is important to an organization.
- a) customer satisfaction as gauged by surveys
 - b) staff salaries as a percentage of sales
 - c) satisfaction of employees with their work environment
 - d) sales revenue divided by the number of hours worked by the sales staff
64. Some information will have to be collected from _____ sources to determine, for example, customer satisfaction.
- a) external
 - b) internal
 - c) regulatory
 - d) competitive
65. Performance reports are primarily used for
- a) financial control.
 - b) cash planning.
 - c) forecasting.
 - d) financial planning.
66. A report which shows actual results, budgets, and variances is called a
- a) financial plan.
 - b) cash budget.
 - c) performance report.
 - d) managerial report.
67. Variances to the budget should be interpreted by using the principle of
- a) management by exception.

- b) management by objectives.
 - c) management by exemption.
 - d) exceptions to variances.
68. One of the most important assumptions about how managers will act in a budget-controlled environment is that:
- a) managers will largely ignore budgets.
 - b) budgets must be too tight to encourage high aspirations.
 - c) budget slack will exist in almost every budget and is negotiated by all managers.
 - d) measurement affects behavior.
69. Which managerial tool below is used to provide the organization with financial control?
- a) a cash budget
 - b) a performance report
 - c) a sales budget
 - d) a customer satisfaction survey

SHORT ANSWER

70. How are "Give and Take" transactions classified in business today and what impact does this have on AIS?
71. Name the major transaction cycles.
72. What is the purpose of source documents? What controls are embedded in source documents? Give two examples of source documents.
73. Why have accounting software packages been designed with separate transaction modules?
74. Describe the purpose of subsidiary and control accounts.
75. What is an audit trail?
76. A well-designed data processing cycle should collect data connected with three facets of business activity. Name the three facets.
77. Source documents are usually generated in the process of conducting common business activities. Name a source document connected with the revenue cycle.
78. Source documents are usually generated in the process of conducting common business activities. Name a source document connected with the human resources cycle.

79. What operational information should an AIS be capable of providing to management?
80. An AIS stores data by organizing smaller units of data into larger, more meaningful units. Briefly explain how data is stored in AIS.

ESSAY

81. Describe the basic business activities and transactions for a typical merchandising company.
82. Coding systems are used throughout accounting information systems. Describe some useful guidelines that will result in a better coding system.
83. In accounting and AIS, what is the relationship between the general and subsidiary ledgers?
84. A company you have been asked to examine as part of an AIS consulting engagement employs a cashier who handles all cash receipts from customers. The cashier counts the cash daily, prepares the bank deposit, and carries the deposit to the bank every day after work. In addition, the cashier authorizes all discounts and allowances and decides when uncollectible accounts will be written off. Finally, because the accounting department is overworked at times, the cashier is allowed to post cash payments to customer accounts and reconcile the bank account. Outline how a dishonest cashier could misuse all these responsibilities to steal cash from the company.
85. It has been said "measurement affects behavior." What does this mean as it applies to business?

ANSWER KEY

1. b
2. a
3. b
4. c
5. b
6. d
7. d
8. c
9. b
10. b
11. a
12. a
13. d
14. d
15. b
16. d
17. b
18. a
19. d
20. c
21. b
22. d
23. a
24. b
25. a
26. d
27. a and d
28. d
29. a
30. a
31. b and c
32. c
33. a
34. d
35. d
36. d
37. c
38. b
39. c
40. b
41. a
42. d
43. c
44. b
45. a
46. c
47. a
48. a
49. c
50. b
51. d
52. a
53. d
54. d

- 55. c
- 56. c
- 57. a
- 58. b
- 59. b
- 60. d
- 61. c
- 62. d
- 63. a
- 64. a
- 65. a
- 66. c
- 67. a
- 68. d
- 69. b

SHORT ANSWER

- 70. The concept of "Give and Take" transactions has been used to classify business transactions into "cycles" that have starting points, processes, and end points (or closure). The majority of business transactions can be classified as revenue, expenditure, human resources (payroll), production, and financing cycles. AIS has been modeled after these transaction cycles to achieve its basic functions of collecting and processing data, providing information useful for decision making, and establishing adequate controls.
- 71. The major transaction cycles are revenue, expenditure, human resources (or payroll), production, and financing.
- 72. The primary purpose of source documents is to record data about business activities. Source documents standardize data collection procedures for an organization and provide better control and accuracy. Source documents are generally pre-numbered, which helps to verify that all transactions have been recorded and there is no missing document; if a document is missing, then which one(s) can be determined. Proper design of source documents ensures which information to collect, preprints standard information such as addresses, and provides directions for completing the form. Examples include: invoices, timecards, sales orders, and purchase orders.
- 73. Since every organization does not necessarily use all of the transaction cycles in its operations, it is to the advantage of the organization to be able to "pick and choose" from among various software modules that track and record different transaction cycles. For example, a law firm would have no need to implement a production cycle module. Also, the nature of a transaction cycle varies across the broad spectrum of business organizations. Again, a law firm would have a revenue cycle, but it would not involve the purchase, receipt, and payment for products or merchandise; likewise a retail store chain may not sell any consulting services to its customers.
- 74. A subsidiary ledger is used when many sub-accounts (such as customers or vendors) must be tracked in detail. These types of accounts are used frequently for accounts receivable and accounts payable applications. The control account gives the overall or total picture for the subsidiary accounts. The control account will show total balances only and must balance to the sum of the individual detail amounts in the subsidiary accounts.
- 75. An audit trail provides a means to check the accuracy and validity of postings to the ledger. The posting references and document numbers help provide the audit trail. An audit trail exists when company transactions can be traced through the AIS from where originate to where they end up on the financial statements
- 76. The three facets of business activity are: 1) the event of interest; 2) the resource(s) affected by the

event; and 3) the agents who participate in the event.

77. Revenue cycle source documents include sales orders, delivery tickets or bills of lading, remittance advice or remittance list, deposit slip, and credit memo.
78. Human resources (or payroll) cycle documents include employee's W-4 form, time cards, or job time tickets or time sheets.
79. Some examples are - reports about inventory status, relative profitability of products, percentage of revenue generated by new products, relative performance of each salesperson, cash collections and pending obligations, and an organization's performance in meeting its delivery and service commitments. The AIS should also be able to provide non-financial information connected with various transactions such as addresses, purchasing histories, telephone and fax numbers, e-mail addresses, Web sites, etc.
80. The smallest unit of data is known as a data value. A data value is physically stored in a space called a field. Any number of fields can be grouped together to form a record. Related records are grouped together to form a file. Files are then combined to form a database.

ESSAY

81. Revenue - sell goods and services to customers and collect cash. Expenditure - obtain goods and services from vendors and pay cash. Human resources - hire qualified employees, train them, pay them, evaluate them, withhold and pay taxes, file tax forms, and comply with government regulations on employment. Financing - investments in company, procuring and repayment of loans, and payment of dividends and interest.
82. The following guidelines will result in a better coding system. First, the code should be consistent with its intended use. Second, the code should allow for growth in the number of items to be coded. The coding system should be as simple as possible. The coding system should be consistent with the company's organizational structure and it should be consistent across the different divisions of an organization.
83. The general ledger contains summary-level information about every asset, liability, equity, revenue, and expense account in an organization. The balances in general ledger accounts form the starting point for preparation of financial statements and various other financial reports. A subsidiary ledger account provides support for any general ledger account that has need of maintaining individual subaccounts (for example, accounts receivable, accounts payable, inventory, and fixed assets). The subsidiary ledger records and maintains the detail-level information for a general ledger account by having a separate record for each customer, vendor, inventory item, or fixed asset. The individual subaccount balances in a subsidiary ledger should equal the balance found in the general ledger account. A general ledger account that corresponds to a subsidiary ledger account is known as a control account.
84. This procedure represents a gross violation of the "segregation of duties" principle. The cashier could steal cash in any number of ways. For example, the cashier could misapply payments from other customers to cover the theft (this is better known as lapping). The cashier could steal cash by writing off the balances as bad debts or cover over the balances with illegitimate discounts. Also, the cashier could steal cash and then cover it up with entries to expense accounts or by preparing a "bogus" bank reconciliation. This is why it is critically important that there is a clear, unequivocal separation of duties when dealing with any aspect of cash in a business.
85. Generally speaking, when employees become aware of the tasks that are under evaluation and measurement, the employees will focus their efforts primarily on those tasks. This could be good or bad depending on the task being measured and the goals of the business. A business should not be merely focused on obtaining expectations from measuring certain tasks to the detriment of the

operation of the business as a whole. Consider for example the measurement of the number of units of a product produced each hour. If the business is only concerned with maximizing output, employees may indeed produce more, but the quality of each unit produced may be unacceptable. If the units are shipped without knowledge of the lower quality, a higher failure rate per unit may occur. This will impact the users of the units, and so a customer service problem may arise due to the "push for higher output." It is important for the organization to balance measurement goals and objectives with the overall mission and values of the organization and its strategic objectives.