

**Testbank**

to accompany

**Accounting Information  
Systems 4e**

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## Chapter 1: Systems fundamentals

### Multiple Choice Questions

1. The role of the accountant has changed in recent times because:
- a. professional bodies have sought to redefine and reposition the accounting function.
  - \*b. computer systems have emerged to handle the classification and recording tasks traditionally associated with the accounting function.
  - c. the accounting cycle is too complex and involved to be performed solely by the accountant.
  - d. knowledge workers have increasingly replaced accountants in the performance of recording and classification tasks.

*Correct answer: b*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

2. As computer systems have been developed to perform the recording and classification tasks associated with business activities, the nature of accounting and the work of the accountant have also been pushed in a new direction. Increasingly, the role of the accountant is seen to be to:
- a. use computer programs rather than manual journals.
  - b. ensure that businesses invest in new software.
  - \*c. add value and provide and interpret information for an organisation.
  - d. outsource accounting work to bookkeepers.

*Correct answer: c*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

3. The ICAA requires that its members should bring their analytic expertise to several fields. Which one of the following field is NOT specified by the ICAA?
- a. Strategic planning and change management.
  - b. Market analysis and compliance.
  - c. The use of information technology.
  - \*d. Human resource management.

*Correct answer: d*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

4. What does ERP stand for?
- \*a. Enterprise Resource Planning
  - b. Enterprise Resource Package
  - c. Electronic Resource Planning
  - d. Electronic Resource Package

*Correct answer: a*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

5. Which of the following statements is NOT a major reason of why accountants of the twenty-first century must be comfortable with information systems concepts?
- a. Computer systems are playing an increasing part in the management and functioning of the organisation.
  - b. Accountants are increasingly exposed to and working with technology and information systems.
  - c. Accountants need to know how computers manage knowledge and its data resources.
  - \*d. Accountants need to lead and oversee the design of an accounting information system.

*Correct answer: d*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

6. Information is:
- a. the same as data.
  - \*b. data that has been processed and converted.
  - c. less useful than data.
  - d. raw facts describing an event.

*Correct answer: b*

*Learning Objective 1.2 ~ Define and describe information*

7. What is information overload?
- a. The situation where a computer has more information than is needed or is able to be processed in a meaningful way when a computer program is executed.
  - \*b. The situation where an individual has more information than is needed or is able to be processed in a meaningful way when working through a decision.
  - c. The situation where a computer has more information than is needed or is able to be processed when data storage is taking place.
  - d. The situation where the amount of information exceeds the storage capacity of the brain of a human being.

*Correct answer: b*

*Learning Objective 1.2 ~ Define and describe information*

8. Which of the following statements best indicates the difference between data and information:
- a. information and data are the same.
  - b. information is less useful than data.
  - c. information is always useful whereas data is only sometimes useful.
  - \*d. information is data that has been processed and converted

*Correct answer: d*

*Learning Objective 1.2 ~ Define and describe information*

9. The following message box appears when entering a customer order into a sales system:



This is an example of:

- a. Input
- b. Process
- c. Output
- \*d. Feedback

*Correct answer: d*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

10. A system can be defined as:
- a. activities that are performed on inputs.
  - b. any device used to capture data including manual keying and scanning.
  - c. any process that an accountant is involved in.
  - \*d. something that takes inputs, applies a set of rules or processes to the inputs and generates outputs.

*Correct answer: d*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

11. Inputs can include:
- a. receipts and invoices that are given to customers.
  - \*b. data as well as other resources, that are the starting point for the system.
  - c. any process that an accountant is involved in.
  - d. computer reports that are analysed by accountants.

*Correct answer: b*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

12. A large company that provides supplies to the defence forces has just established a new accounting system. Which of the following is an example of a factor in the external environment that would impact on the design of this system:
- a. the specification details gained from users.
  - b. the directive from the finance director about the system's operation capacity.
  - c. the defence force requirement regarding e-commerce.
  - \*d. the accounting standards governing large companies.

*Correct answer: d*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

13. MICR is an input technology used:
- a. on receipts and invoices that are given to customers.
  - \*b. on bank cheques.
  - c. in the processing of ATM receipts.
  - d. by many organisations to expedite the processing of accounts payable invoices.

*Correct answer: b*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

14. Over time, the relationship between accounting and information systems has seen:
- a. accounting gain an increased role as the emphasis shifted from information systems to accounting.
  - \*b. information systems gain an increased role as the emphasis shifted from accounting to information systems.
  - c. information systems and accounting share the emphasis.
  - d. both accounting and information systems become part of a wider organisational IT function.

*Correct answer: b*

*Learning Objective 1.4 ~ Define 'accounting information systems' and discuss their evolution*

15. "Charlie & Dave's Computer Store" is considering the best way to enter data about new customers that sign up as part of a new marketing campaign. Customers complete their details on a form and leave them at the store for further processing. The best method for capturing this data would be:
- a. scanning through barcode technology.
  - b. optical mark readers.
  - \*c. manual keying.
  - d. scanning through image scanners.

*Correct answer: c*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

16. An accounting information system can best be defined as:
- a. the application of technology to the capturing, storing, sorting and reporting of data.
  - b. the application of technology to the capturing, storing, sorting and reporting of information.
  - c. the application of technology to the capturing, verifying, storing, sorting and reporting of information relating to an organisation's activities.
  - \*d. the application of technology to the capturing, verifying, storing, sorting and reporting of data relating to an organisation's activities.

*Correct answer: d*

*Learning Objective 1.4 ~ Define 'accounting information systems' and discuss their evolution*

17. Which of the following is unlikely to be the accounting's role to an organisation?
- a. Gather data about the organisation's activities.
  - b. Provide a means for business data storage and processing.
  - c. Convert business data into useful information.
  - \*d. Exercise strategic decision-making according to accounting information.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

18. An accounting information system is unlikely to help a firm to:
- a. determine whether to approve a credit sale.
  - b. decide how much to purchase from suppliers.
  - c. determine the provision for bad debts.
  - \*d. eliminate financial fraud.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

19. There are a few source documents that contain accounting data. An accounting clerk enters these data into an accounting program hosted in a computer. The computer displays an analysis report on screen when the accounting program has finished processing the data.

In this scenario, the accounting information system consists of:

- a. the accounting program.
- b. source document and the accounting program.
- c. source document, the accounting program, and the computer.
- \*d. source document, the accounting clerk, the accounting program, and the computer.

*Correct answer: d*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

20. An example of an output from an accounting information system could be:
- a. the screen for entering transactions.
  - b. the screen for selecting what report to produce.
  - \*c. the screen that lists updated and categorised account balances.
  - d. the screen for entering file saving locations.

*Correct answer: c*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

21. Feedback:

- a. always includes an error message.
- b. is the method to indicate that a problem exists.
- c. never includes an error message.
- \*d. is the method for ensuring that the system is running as normal and that there are no problems or exceptional circumstances.

*Correct answer: d*

*Learning Objective 1.3 ~ Define and describe a system, using examples*

22. The role of the accountant has changed in recent times because:

- a. professional bodies have sought to redefine and reposition the accounting function.
- \*b. computer systems have emerged to handle the classification and recording tasks traditionally associated with the accounting function.
- c. the accounting cycle is too complex and involved to be performed solely by the accountant.
- d. knowledge workers have increasingly replaced accountants in the performance of recording and classification tasks.

*Correct answer: b*

*Learning Objective 1.1 ~ Define and describe accounting and explain how information systems have altered the role of accounting and the job of the accountant*

23. Which of the following statements concerning working professionals is correct?

- a. A working professional in the accounting domain will not be involved in system development.
- b. A working professional in a domain extended beyond accounting is more likely to be involved in system development than their counterparts in the accounting domain.
- c. A working professional in a domain extended beyond accounting is less likely to be involved in system development than their counterparts in the accounting domain.
- \*d. System development will be part of the career of a working professional in the accounting domain.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*



24. Data Mining is:

- a. a technology that is used by large multinational resource companies such as BHP, Rio Tinto and Xstrata.
- b. declining in popularity with companies due to the emergence of newer technologies.
- c. a technology that analyses small pools of internally generated data and identifies possible cost savings.
- \*d. a technology that analyses large pools of data and identifies patterns in them that can then be used by organisations for decision making.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

25. Which of the following factors will impact on the way an auditor goes about the audit of an information system?

- (i) Legislative requirements;
- (ii) Professional requirements;
- (iii) Prescription of the various auditing standards;
- (iv) Unique characteristics of the individual client.

- a. i, iii
- b. i, ii, iii
- c. i, ii, iv
- \*d. i, ii, iii, iv

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

26. Which of the following statements concerning ethics is correct?

- \*a. Ethics is concerned with how we act and how we make decisions.
- b. Electronic accounting information systems eliminate the need for ethical behaviour.
- c. Professional bodies, such as CPA and ICAA, are placing less reliance on ethics and more on legal compliance.
- d. Ethical issues and legal issues are the same.

*Correct answer: a*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

27. Which of the following statement regarding business processes is correct?
- a. Business processes represent the series of discrete activities that deliver something of value to external customers.
  - b. Business processes represent the series of discrete activities that deliver something of value to both internal and external customers.
  - c. Business processes represent the series of interlocking activities that deliver something of value to internal customers.
  - \*d. Business processes represent the series of interlocking activities that deliver something of value to both internal and external customers.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

28. Relational database approach:
- a. looks for relationships between different business processes of logically connecting the different pieces of data.
  - \*b. looks for relationships between different pieces of data as a means of logically connecting the different pieces of data.
  - c. looks for relationships between different transactions as a means of logically connecting the different pieces of data.
  - d. looks for relationships between different business entities as a means of logically connecting the different pieces of data.

*Correct answer: b*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

29. Normalisation:
- a. is a process that can now be eliminated in designing databases due to technology improvements.
  - b. ensures all the higher-level operational aspects are also included, as normalisation starts with the tables, forms and data of the organisation.
  - c. is a top-down process.
  - \*d. minimises potential anomalies that can emerge in a data management system.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

30. An ER diagram shows:

- \*a. the logical design of the database from a top-down perspective.
- b. the physical design of the database from a top-down perspective.
- c. the logical design of the database from a bottom-up perspective.
- d. the physical design of the database from a bottom-up perspective.

*Correct answer: a*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

31. When it comes to capturing the underlying design and structure of a database, the term “ER diagram” refers to:

- a. Enterprise Resource diagram
- \*b. Entity Relationship diagram
- c. Enterprise Relationship diagram
- d. Entity Resource diagram

*Correct answer: b*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

32. A database represents:

- a. the culmination of hardware and software.
- b. the culmination of hardware, software and data.
- c. the culmination of procedures, hardware, software and data.
- \*d. the culmination of people, procedures, hardware, software and data.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

33. XBRL stands for:

- \*a. extensible business reporting language.
- b. cross business reporting language.
- c. extended business report language.
- d. executable business reporting language.

*Correct answer: a*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

34. Which of the following description of XBRL is true?
- a. XBRL is a new technology that yet to be made a practical reality.
  - \*b. XBRL adds meaning to data so that other applications know what the data represents and how it should be treated
  - c. XBRL is fundamentally different from HTML.
  - d. A standard set of XBRL tags is not available yet.

*Correct answer: b*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

35. In general, system documentations cannot show:
- a. how business processes are designed.
  - b. the data that moves through the processes.
  - c. the activities that occur within the processes.
  - \*d. all internal control mechanisms.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

36. Which of the following statements regarding system documentation is correct?
- a. Systems documentation is only useful for internal staff.
  - b. Systems documentation is increasingly being phased out of organisations due to newer technology.
  - \*c. Systems documentation is crucial for systems development and systems review.
  - d. Answers a and c are both correct.

*Correct answer: c*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

37. Which one of the following is often overlooked by businesses when it comes to internal control?
- a. Fraud
  - b. Theft of business data
  - \*c. Disaster recovery
  - d. Errors in data

*Correct answer: c*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

38. Internal controls cannot:

- a. prevent anomalous and undesirable occurrences.
- b. detect anomalous and undesirable occurrences.
- c. correct anomalous and undesirable occurrences.
- \*d. reverse the effects brought about by anomalous and undesirable occurrences.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

39. Which of the following statement regarding internal control is correct?

- \*a. Internal controls provide a degree of assurance that the organisation and its systems are running normally.
- b. Internal controls can prevent and detect anomalous and undesirable occurrences, but they cannot reverse the effects caused by such occurrences.
- c. Internal controls do not concern about natural disasters and other catastrophic disruptions.
- d. Internal controls are only implemented in the most important functions of an organisation.

*Correct answer: a*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

40. Internal controls do not control:

- a. physical assets in an organisation.
- b. information resources in an organisation.
- c. human behaviours in an organisation.
- \*d. business process efficiencies in an organisation.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

41. Which of the following activities is not part of the revenue cycle?

- a. Receiving customer orders.
- b. Checking credit history.
- c. Packing and shipping goods to customers.
- \*d. Ordering new goods from suppliers.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

42. Which of the following activities is not part of the expenditure cycle?

- a. Purchasing
- b. Updating the accounts payable
- c. Authorising payment
- \*d. Producing goods

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

43. Which of the following activities is not part of the production cycle?

- a. Managing raw materials.
- b. Planning production.
- \*c. Keeping the finished goods.
- d. Handling variances for standard and actual costs of goods manufactured.

*Correct answer: c*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

44. Which of the following statements about the HR management and payroll cycle is NOT true?

- a. The cycle involves recruiting employees.
- b. The cycle involves managing and paying employees.
- c. The cycle involves dealing with situations where employees leave the organisation.
- \*d. Decisions about who to hire will not impact upon the way the other processes are executed.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

45. Which of the following activities is NOT part of the general ledger and financial reporting cycle?

- a. Preparing and updating journals and ledger accounts.
- b. Preparing end-of-period adjusting entries and close the temporary accounts to profit and loss.
- c. Preparing trial balances and producing financial reports.
- \*d. Preparing cheque requisition.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

46. Which of the following statements regarding the auditing of accounting information systems is NOT true?
- a. When conducting an audit, the auditors should consider legislative requirements.
  - b. When conducting an audit, the auditors should consider professional requirements.
  - c. When conducting an audit, the auditors should consider prescriptions of various accounting standards.
  - \*d. When conducting an audit, the auditors do not need to worry about the unique characteristics of an individual client.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

47. Which of the follow statements regarding ethics is false?
- a. Ethics is concerned with how we act and how we make decisions.
  - b. Accountants are bound by professional ethics.
  - c. Most professional bodies have ethical standards that members must follow.
  - \*d. A casual bookkeeping employee, who is not a member of any professional association, need not adhere to professional accounting ethics.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

48. Systems development is unlikely to be driven by:
- a. a change in the regulatory environment.
  - b. a change in the business environment.
  - c. a business need from within the organisation.
  - \*d. a change in the technology infrastructure, such as computer hardware.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss and provide examples of the role of accounting information*

## Short Answer Questions

1. Traditionally, the role of an accountant is to capture and record financial information. Has this role changed? Why or why not?

*Answer:*

The accountant's role has extended beyond the task of capturing and recording financial information about an organisation to being more of a knowledge worker: someone who provides information and solves problems for an organisation. The days of the accountant only being the one who maintains the books are long gone. The career paths of an accountant, however, still rely on the knowledge of accounting. Accounting is still an important skill to possess — it is just that what those with accounting skills do with them has changed.

2. What are the differences between data and information?

*Answer:*

Data are the raw facts relating to or describing an event. Data become useful when they are subject to the application of rules or knowledge, which enables us to convert data into information. Information is used in decision making and can prompt action, as well as be a guiding tool for decision making, while data cannot be used in this way.

3. Information overload can be harmful to both individuals and the relevant organisation, why?

*Answer:*

Organisations need to be conscious of what information they produce (whether reports or some other type of information) and make sure that it is relevant to the people who need it. Commonly in large organisations, people will request reports for a specific problem. Over time that problem may disappear, yet the reports are still produced. In many cases these reports will then just be filed away because “that's what has always been done”. So resources are wasted in generating the reports. For the person receiving the irrelevant information, there is a potential risk of information overload, which happens when an individual has more information than he or she needs and can process meaningfully when working through a decision. This can lead to undesirable consequences, such as reduction in efficiency, decrease in productivity, and increased stress.

4. Describe the relationship between input, process, and output.

*Answer:*

Inputs can include data, as well as other resources, that are the starting point for a system. Processes are the sets of activities that are performed on the inputs into the system. Outputs refer to what is obtained from a system, or the result of what the system does. Typically, a process will take at least one input and then “transform” or “manipulate” the input into outputs. As such, for any process, there must be at least one input and one output associated with it.



5. What is feedback and how does it interact with the system?

*Answer:*

Interacting with the inputs, processes and output will be the provision of feedback, which is the method for ensuring that the system is running as normal and that there are no problems or exceptional circumstances. For example, when a datum about a customer, such as a customer number, is entered into a system, the system will take the datum and check that it is in the required format and is a valid number. If the system finds an error in the customer number (e.g. it has been entered as alpha-numeric when it should be numeric), then it will alert the data entry person responsible and prompt them to re-enter the customer number in the correct format.

6. What is the relationship between system scope and the external environment?

*Answer:*

A system will also have a defined task or domain to which it is applied - one system cannot do everything. This is the idea of system scope: the domain that a system addresses. Systems also operate within a particular external environment or context, which will affect the operation of the system. Therefore, anything that is not included within the system scope belongs to the external environment. Collectively, the things belong to the external environment are factors or pressures outside a system that influence its design and operation.

7. An accounting information system can be defined as the application of technology to the capturing, verifying, storing, sorting and reporting of data relating to an organisation's activities. Explain how this definition is arrived.

*Answer:*

This definition encompasses the definitions of accounting, information and systems. "Capturing, verifying, storing, sorting and reporting" describes the functions of accounting within an organisation, whereas "data relating to an organisation's activities" is relevant to the definition of information. Also, the capturing and reporting of data reflect the input and output of a system, while verifying, storing, and sorting are relevant to the processes.

8. Until the 1970s, information systems were seen as a support tool for the accounting function. What happened afterwards as technology continued to develop?

Answer:

As technology continued to develop, including management information systems, database technology and electronic data processing technologies, and with the emergence of the microcomputer, organisations began to see that the technology of the computer could be applied beyond the domain of the accounting function. The effect of this realisation was that the information systems function began to develop an identity of its own, becoming more distinct from the accounting function, which had previously subsumed it. As these new techniques emerged, the accounting function's reliance on the information systems function increased. The reliance on the information services function has extended beyond just the accounting function, with multipurpose applications and technologies and developments emerging. Such developments meant that information systems technologies were being incorporated into other functional areas of the organisation apart from accounting. From the organisation's perspective this increases the role of information systems within the organisation and makes the other functional areas dependent on the information systems function.

9. What kind of information can an accounting information system provide and what are the uses of such information?

Answer:

The information that can be generated by an accounting information system is diverse. For example, typical accounting statements that are produced by an accounting information system include the income statement (or statement of comprehensive income), the statement of financial position (or balance sheet) and the statement of cash flows. These reports represent information generated by the accounting system to support decision making by providers of scarce economic resources. Such information is used by providers of economic resources in making decisions about whether to invest in a company, as well as for evaluating company performance at the end of the financial year.

However, the traditional financial statements are by no means the only source of information available through the accounting information system. The general purpose financial statements are used by shareholders and potential shareholders, creditors and debtors alike to assess the above dimensions. Accounting information that typically extends further is also available for decision makers within an organisation. Within an organisation, employees will have access to the data that are stored and can query and manipulate them in various ways to answer questions that may arise in the day-to-day running of the organisation. A properly designed accounting information system can satisfy internal users' needs by providing relevant information (e.g. in the form of reports).

*Testbank to accompany: Accounting information systems 4e*

10. Give five examples of decision-making (within a firm) that require accounting information.

Answer:

- i. determining whether to approve a credit sale
- ii. determining a customer's creditworthiness
- iii. determining the quantity of raw materials to order
- iv. determining the financial performance of the firm, a department, or even a team
- v. determining the provision for bad debts