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| <p style="text-align: center;">Chapter 1 ACCOUNTING INFORMATION SYSTEMS AND THE ACCOUNTANT</p> |
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True-False Questions

1. The acronym AIS stands for “Accounting Information Standards.”
2. Accounting information systems must be computerized to be effective.
3. It is best to view an AIS as an accounting system that must be computerized.
4. AISs often create information that is useful to non-accountants.
5. In order to be useful, raw accounting data must be processed by a computer.
6. The path that data follow in an AIS, for example from manual source document to completed output report, is called an *audit trail*.
7. A company's audit trail is normally easier to follow under a manual data processing system compared to a computerized information processing system.
8. The starting point for an audit trail of a weekly payroll system might be an employee time card.
9. The starting point for an audit trail of a production department might be the purchase order for raw materials.
10. The acronym ERP stands for “electronic reporting plan.”
11. The term *information overload* refers to providing too much data to management, often resulting in managers ignoring it.
12. An advantage of computerized AISs is that they do *not* need to be programmed to catch simple input errors such as entering “4.0” instead of “40.0” for hours worked in a payroll application.
13. Computers tend to make audit trails easier to follow because everything is computerized.
14. The acronym ERP stands for “enterprise reporting system.”
15. The authors consider accountants to be “knowledge workers.”
16. Predictive analytics use large data warehouses to help organizations improve performance by predicting future outcomes.

17. As used in this chapter, the acronym SAR stands for “suspicious accounting reporting.”
18. Sections of the Patriot Act mandate suspicious activity reporting.
19. One of the motivations for SAR is to identify money laundering activities.
20. The term “Patriot” in the “Patriot Act of 2001 is an acronym for “providing appropriate tools required to intercept and obstruct terrorism.”
21. Accounting rules do not allow for any flexibility in financial reporting by management.
22. Accounting systems are useful for performing accounting tasks, but *cannot* be used for such security purposes as countering terrorism.
23. An example of a corporate scandal that was mentioned in this chapter is the Enron case.
24. The Sarbanes-Oxley Act allows CPA firms to help clients acquire, install and use information systems and to also act as those clients’ external auditor.
25. The Sarbanes-Oxley Act prohibits companies from using the same auditing firms for performing both auditing and management consulting services.
26. Cloud computing is a way of using business applications over the Internet.
27. A consulting service provided by CPA firms is risk assessment.
28. A major output of financial accounting is the preparation of financial statements such as an income statement.
29. The series of steps leading from data recorded in transaction records to the information reported on financial statements is called the *accounting cycle*.
30. AISs are only concerned with financial information.
31. One major difference between financial accounting and managerial accounting is that financial accountants prepare financial statements for external investors while managerial accountants prepare financial statements for internal managers.
32. In a responsibility accounting system, managers trace unfavorable performance to the department or persons causing the inefficiencies.
33. One major difference between financial accounting and managerial accounting is that financial accountants use dashboards while managerial accountants do not.

34. An example of a financial report that would be prepared by a managerial accountant (instead of a financial accountant) is a budget report.
35. XBRL is a business reporting language that is used to define interactive financial data.
36. “Cost accounting” is a subset of managerial accounting.
37. An ABC inventory system refers to an “activity-based costing” system.
38. As used in chapter 1, the term “dashboard” refers to a quick and easy plan to install a computerized accounting system in an organization.
39. As used in Chapter 1, a dashboard is an up-to-the-minute graphic depiction of key performance measures.
40. The purpose of the assurance services of an accounting firm is to give a company’s managers moral support when they are audited by the federal or state government.
41. “CPA Trust Services” performed by a CPA provides assurance that a company engaged in electronic commerce has an information system that is secure.
42. An example of a value-added reseller (VAR) is a dealer who sells software but does not help with the installation, training and customization of that software for the customer.
43. Some possible career opportunities for AIS majors or minors include consulting positions, computerized auditing, or computer security positions.
44. Accountants are usually classified as “line workers” within business organizations.
45. Today's AIS is an enterprise-wide information system that focuses on interdepartmental business processes.
46. A good audit trail within the financial accounting system should allow a manager or auditor to trace any source document back from a report to the original data entry.
47. Managerial accounting principally provides decision-making information to a company's internal managers.
48. As a result of computerized information processing systems in many organizations today, the need for accountants in these organizations has significantly declined.
49. Activity-based costing systems focus on allocating overhead on the basis of direct labor hours used.

- 50. Because accountants are *not* normally computer programmers working within the information processing subsystem, it is unnecessary for them to understand the capabilities and limitations of computers.
- 51. Within the traditional AIS, a sales order would *not* be considered an accounting transaction.
- 52. Students majoring in AIS are unlikely to assume jobs in traditional accounting positions because they know too much.
- 53. There are limited career opportunities available for students who study both accounting and information systems.
- 54. One possible career for AIS majors is in the traditional area of financial or managerial accounting.
- 55. The CISA is an acronym for a professional accounting certification.

Multiple-Choice Questions

- 56. The “S” in the acronym “AIS” stands for:
 - a) Standard
 - b) System
 - c) Symbol
 - d) none of these
- 57. The letter “P” in the acronym “ERP” stands for:
 - a) Production
 - b) Planning
 - c) Project
 - d) none of these
- 58. Which of the following is true about the terms “data” and “information” within the context of Chapter 1?
 - a) These terms are exactly the same
 - b) These terms are exact opposites
 - c) Processed “data” becomes “information”
 - d) none of these
- 59. Which of the following captures the same idea as the term “Garbage In Garbage Out?”
 - a) Too much information is the same as garbage
 - b) The quality of computer output is determined by the quality of the input
 - c) Great investments lead to great returns
 - d) Too many cooks spoil the broth

60. Which of the following best describes a data warehouse?
- a) A repository of historical information from one accounting application
 - b) A repository of historical information from a set of accounting applications
 - c) A repository of information from a wide range of services—some not accounting—stored within a company
 - d) A repository of information from many businesses in the same industry
61. Most AISs perform all of these functions *except*:
- a) Collect raw accounting data
 - b) Store accounting data for future uses
 - c) Process data into useful information
 - d) AISs perform all of these functions
62. As used in the chapter, the term “knowledge workers”:
- a) Are blue collar workers in non-managerial positions
 - b) Are the same as delivery clerks
 - c) Include most accountants
 - d) Does not include most accountants
63. All of the following are possible uses of AIS or accounting personnel that were discussed in the chapter *except*:
- a) Countering terrorism
 - b) Foiling future accounting scandals
 - c) Providing assurance services
 - d) Performing monetary exchanges
64. Suspicious activity reporting:
- a) Only applies to banking transactions
 - b) Is mandated by state, but not federal, regulations
 - c) Is mostly concerned with embezzlement issues
 - d) Requires CPAs to report questionable financial transactions to the U.S. Treasury Department.
65. Which of these would be considered suspicious activities under current SAR rules?
- a) Money laundering
 - b) Bribing officials
 - c) Transferring money to suspected terrorists
 - d) all of these

66. Which of these businesses is *not* required to report suspicious activities under current federal laws?
- a) Banks
 - b) Money service organizations
 - c) Commodity Traders
 - d) Mutual fund dealers
 - e) All of these businesses must engage in SAR
67. Which of these statements best describes the relationship between “AISs” and “countering terrorism?”
- a) These are completely independent items; there is no relationship
 - b) AISs can help counter terrorism by providing SAR evidence
 - c) AISs can help by denying financial aid to terrorist groups
 - d) AISs can help by identifying international embezzlers
68. Bernard Madoff is most closely associated with which of the following terms?
- a) The father of activity-based costing systems
 - b) SAR
 - c) Ponzi scheme
 - d) Sarbanes-Oxley Act of 2002
 - e) Key sponsor of the Patriot Act
69. Many accountants feel that the most important part of the Sarbanes-Oxley Act is:
- a) Its anti-terrorist provisions
 - b) Its provisions requiring the reporting of suspicious activities
 - c) Section 404 on internal controls
 - d) Section 505 on money laundering
70. Managerial accounting principally provides information to:
- a) Stockholders
 - b) Government regulators (e.g., SEC, Federal bank examiners)
 - c) Internal company management
 - d) Potential creditors
71. The process by which a financial transaction is recorded so that its flow through the system can be followed is called:
- a) Financial shadowing
 - b) Managerial trace technique
 - c) Concatenation
 - d) An audit trail

72. Which of the following accounting functions has been automated by most companies' information processing subsystems?
- a) Posting to ledgers
 - b) Recording journal entries
 - c) Preparing trial balances
 - d) all of the above
73. What has been the effect on accountants in those organizations which have computerized their data processing functions?
- a) The need for accountants has disappeared
 - b) The accountants have become "pure" bookkeepers
 - c) The accountants have become involved in more decision-making activities
 - d) The accountants' decision-making activities have drastically declined
74. What is the first step to be performed by most organizations in their accounting cycles?
- a) Recording business transactions in a journal
 - b) Preparing a trial balance
 - c) Recording closing entries in a journal
 - d) Preparing transaction source documents
 - e) none of the above
75. Which of these is a business reporting language often used in recording or transmitting accounting data?
- a) XBRL
 - b) XFile
 - c) ABC
 - d) Accounting Live
76. The P in the acronym KPI stands for:
- a) Processing
 - b) Performance
 - c) Planning
 - d) Personnel
 - e) none of these
77. For performance reports to achieve their control objectives, they must:
- a) Include relevant information so that necessary action may be taken to accomplish organizational goals
 - b) Be timely so that minimal time elapses between an activity's occurrence and the feedback reflecting the activity's efficient or inefficient performance
 - c) Provide subsystem managers with suggestions as to how they can operate their subsystems more efficiently
 - d) all of the above
 - e) a and b only

78. Historically, financial data used in one application was *not* easily transferable to other applications. However, the problem was fixed with which one of the following?
- a) XMP
 - b) ERP
 - c) XBRL
 - d) XMLP
79. An example of an assurance service for a company engaged in electronic commerce is:
- a) XBRL
 - b) Trust US
 - c) CITP
 - d) CPA Trust Services
80. Which of the following is *not* a component of the balanced scorecard?
- a) Customer knowledge
 - b) Internal business processes
 - c) Transaction processing
 - d) Financial performance
81. Information systems auditors are:
- a) Auditors who are concerned with analyzing risks associated with computerized information systems
 - b) Individuals who often work closely with financial auditors
 - c) Auditors who have a lot of technical expertise related to information technology
 - d) all of the above
82. Which of these is a certification that accountants can earn that focuses on proficiency in information technology?
- a) CPA
 - b) CMA
 - c) CISA
 - d) CITP
83. The designation for a licensed information systems audit professional is:
- a) CPA
 - b) CMA
 - c) CIA
 - d) CISA
84. The certified information systems auditor certification is sponsored by:
- a) ISACA
 - b) AICPA
 - c) IMA
 - d) none of these

85. Which of the following *best* describes “predictive analytics”?
- a) It is a method auditors use to predict when managers might have a weak internal control system
 - b) It is a technique that uses data stored in data warehouses to create systems that allow managers to use their data to make predictions about future outcomes
 - c) It is a method used to prevent managers from overriding internal controls
 - d) none of the above

86. Which of the following describes “cloud computing”?
- a) It is a way of using business applications over the Internet
 - b) It is an internal business process over the organizations intranet
 - c) It is an internal business process over the organizations extranet
 - d) none of these

87. Which one of the following **best** describes the performance elements contained in most balanced scorecards?

| | Financial <u>Performance Measures</u> | Nonfinancial <u>Performance Measures</u> |
|----|--|---|
| a) | No | No |
| b) | No | Yes |
| c) | Yes | No |
| d) | Yes | Yes |

88. The balanced scorecard provides an action plan for achieving competitive success by focusing management attention on critical success factors. Which one of the following is *not* one of the competitive success factors commonly focused upon in the balanced scorecard?
- a) Competitor business strategies
 - b) Financial performance measures
 - c) Internal business processes
 - d) Employee innovation and learning

Matching Questions

For the following terms find the correct definition below and place the letter of that response in the blank space next to the term. Each definition is used only once – there are two terms that are *not* used.

- 89. _____ CFE
- 90. _____ SAR
- 91. _____ CISA
- 92. _____ ERP
- 93. _____ XBRL
- 94. _____ ISACA
- 95. _____ IT
- 96. _____ REA
- 97. _____ KPI
- 98. _____ VAR

Definitions:

- A. A professional auditing organization
- B. A special type of systems consultant who is licensed to sell particular software packages and provide organizations with consulting services related to that software
- C. An enterprise-wide accounting system
- D. Federally-mandated reporting of suspicious accounting activities
- E. An important database design approach
- F. Key productivity report
- G. A language for creating, transforming, and communicating financial information
- H. An auditing certification
- I. An acronym often used to describe the computer department of an organization
- J. A type of knowledge worker
- K. A certification that requires individuals to meet certain qualification set by the Association of Certified Fraud Examiners
- L. An important performance indicator

Short Answer Questions

- 99. Name some business activities that do *not* require traditional journal entries.
- 100. Give three reasons why XBRL formatted documents are useful.