Accounting Information Systems, 12e **(Romney/Steinbart)**
Chapter 2 Overview of Transaction Processing and ERP Systems

1) What usually initiates data input into a system?
A) The 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 a source document is submitted to the accounting department.
Answer: B
Page Ref: 26
Objective: Learning Objective 1
Difficulty : Easy
AACSB: Analytic

2) An ERP system might facilitate the purchase of direct materials by all of the following *except*
A) selecting the best supplier by comparing bids.
B) preparing a purchase order when inventory falls to reorder point.
C) routing a purchase order to a purchasing agent for approval.
D) communicating a purchase order to a supplier.
Answer: A
Page Ref: 37
Objective: Learning Objective 5
Difficulty : Moderate
AACSB: Reflective Thinking

3) Which of the following is *not* true about the accounts receivable subsidiary ledger?
A) Debits and credits in the subsidiary ledger must always equal.
B) Every credit sale is entered individually into the subsidiary ledger.
C) The total of the subsidiary ledgers must equal the control account.
D) The subsidiary ledgers play an important role in maintaining the accuracy of the data stored in the AIS.
Answer: A
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

4) Which of the following is *not* usually a consideration when designing a coding system?
A) Government regulations on coding systems
B) Standardization
C) Future expansion needs
D) Facilitating report preparation
Answer: A
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

5) The general ledger
A) summarizes the transactions in journals.
B) only includes balance sheet accounts.
C) is posted in total to the general journal.
D) is the initial place to record depreciation expense.
Answer: A
Page Ref: 28
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

6) For a retail business, a delivery of inventory, from a vendor (with whom there is an established credit relationship) would be initially recorded in which type of accounting record as part of which transaction cycle?
A) purchases journal; expenditure cycle
B) general journal; expenditure cycle
C) general ledger; expenditure cycle
D) cash disbursements journal; production cycle
Answer: A
Page Ref: 31
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

7) Which of the following statements regarding special journals is *not* true?
A) The balances in a special journal must always reconcile to the general ledger.
B) Special journals are used to record large numbers of repetitive transactions.
C) Special journals are periodically summarized and posted to the general ledger.
D) Special journals provide a specialized format for recording similar transactions.
Answer: A
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

8) Changing an employee's hourly wage rate would be recorded in which file?
A) Employee master file
B) Employee transaction file
C) Payroll master file
D) Payroll transaction file
Answer: A
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

9) 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
Answer: D
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Easy
AACSB: Analytic

10) 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
Answer: B
Page Ref: 26
Objective: Learning Objective 1
Difficulty : Easy
AACSB: Analytic

11) 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
Answer: A
Page Ref: 26
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

12) 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
Answer: D
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

13) The collection of job time tickets or time sheets is part of which transaction cycle?
A) revenue cycle
B) production cycle
C) human resources cycle
D) expenditure cycle
Answer: C
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

14) 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.
Answer: B
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

15) Which of the following documents would be found in the expenditure cycle?
A) delivery ticket
B) time card
C) credit memo
D) purchase order
Answer: D
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

16) Documents that are sent to customers or suppliers and then sent back to the company in the course of a business transaction are known as
A) turnaround documents.
B) source documents.
C) source data automation.
D) transaction documents.
Answer: A
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

17) Which of the following is an 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
Answer: B
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

18) Pre-numbering of source documents helps to verify that
A) all transactions have been recorded since the numerical sequence serves as a control.
B) source data automation was used to capture data.
C) documents have been used in order.
D) company policies were followed.
Answer: A
Page Ref: 27-28
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

19) Source documents generally help to improve accuracy in transaction processing because
A) they specify which information to collect.
B) logically related data can be grouped in the same area of the document.
C) they provide directions and steps for completing the form.
D) All of the above are correct.
Answer: D
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

20) When the sum of all entries in the subsidiary ledger equals the balance in the corresponding general ledger account, it is assumed that
A) the recording processes were accurate.
B) all source documents were recorded.
C) adjusting entries are not required.
D) no errors exist in the subsidiary ledger.
Answer: A
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Analytic

21) 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.
Answer: D
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

22) Pre-numbered checks, invoices, and purchase orders are examples of
A) sequence codes.
B) block codes.
C) group codes.
D) mnemonic codes.
Answer: A
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

23) A chart of accounts is an example of (select all that apply)
A) sequence codes.
B) block codes.
C) group codes.
D) mnemonic codes.
Answer: B, C
Page Ref: 28-29
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

24) Product items are often coded with (select all that apply)
A) sequence codes.
B) block codes.
C) group codes.
D) mnemonic codes.
Answer: C, D
Page Ref: 28-29
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

25) Which of the following statements is *false?*
A) Codes should be consistent with intended use.
B) Codes should allow for growth.
C) Codes should be as simple as possible.
D) Codes should be customized for each division of an organization.
Answer: D
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

26) To be effective, the chart of accounts must
A) be as concise as possible.
B) begin with account 001.
C) utilize only one coding technique.
D) contain sufficient detail to meet the information needs of the organization.
Answer: D
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

27) 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
Answer: C
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

28) 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) recording data in a general ledger
Answer: C
Page Ref: 26
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Analytic

29) The efficiency of recording numerous business transactions can be best improved by the use of
A) prenumbered source documents.
B) specialized journals.
C) posting references.
D) subsidiary ledgers.
Answer: B
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

30) A general journal
A) would be used to record monthly depreciation entries.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: A
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

31) The general ledger
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: D
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Analytic

32) A subsidiary ledger
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: C
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Analytic

33) A specialized journal
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: B
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Analytic

34) An audit trail
A) provides the means to check the accuracy and validity of ledger postings.
B) begins with the general journal.
C) is automatically created in every computer-based information system.
D) is a summary of recorded transactions.
Answer: A
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

35) Concerning a master file, which of the following statements is *false*?
A) A master file is conceptually similar to a ledger in a manual AIS.
B) A master file stores cumulative information.
C) A master file exists across fiscal periods.
D) A master file's individual records are rarely, if ever, changed.
Answer: D
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Analytic

36) Which of the following is conceptually similar to a journal in a manual AIS?
A) database
B) master file
C) record
D) transaction file
Answer: D
Page Ref: 33
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

37) 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 not frequently used.
Answer: C
Page Ref: 33-34
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

38) The data processing method used by FedEx to track packages is an example of
A) real-time processing.
B) batch processing.
C) online batch processing.
D) real-time batch processing.
Answer: A
Page Ref: 34
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Analytic

39) Which statement below regarding the AIS 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) The AIS was often just one of the information systems used by an organization to collect and process financial and nonfinancial data.
D) Traditionally, most AIS have been designed so that both financial and operational data are stored in a manner that facilitates their integration in reports.
Answer: D
Page Ref: 34
Objective: Learning Objective 4
Difficulty : Moderate
AACSB: Reflective Thinking

40) Callow Youth Clothing (CYC) is a boutique retailer located in Estes Park, Colorado. During the peak tourist season, it has average daily cash and credit card sales in excess of $5,000. What is the *best* way for CYC to ensure that sales data entry is efficient and accurate?
A) Well-designed paper forms
B) Source data automation
C) Turnaround documents
D) Sequentially numbered sales invoices
Answer: B
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

41) In Petaluma, California, electric power is provided to consumers by the Power To The People Electrical Company (PTTP), a local co-op. Each month PTTP mails bills to 70,000 households and then processes payments as they are received. What is the *best* way for this business to ensure that payment data entry is efficient and accurate?
A) Well-designed paper forms
B) Source data automation
C) Turnaround documents
D) Sequentially numbered bills
Answer: C
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

42) Callow Youth Clothing is a boutique retailer located in Estes Park, Colorado. It is a sole proprietorship that stocks an inventory of between 80 and 160 different products. Inventory is updated in real time by the AIS. When designing a chart of accounts for this business, what is the *minimum* number of digits necessary to represent the general ledger account code, including subsidiary ledgers?
A) 4
B) 6
C) 7
D) 9
Answer: B
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Difficult
AACSB: Reflective Thinking

43) The quality assurance department at a large manufacturing business enters data into the AIS that is used to produce a weekly report that summarizes the proportion of defective units in each product line. This is an example of
A) internal financial information.
B) internal nonfinancial information.
C) external financial information.
D) external nonfinancial information.
Answer: B
Page Ref: 34
Objective: Learning Objective 4
Difficulty : Moderate
AACSB: Reflective Thinking

44) The premier buyer and seller of vintage action figures in the San Francisco Bay area is Vini Vidi Geeky. Since 1996, the owner, Glamdring Elfthrall, has leveraged computer technology to provide a superior level of customer service. In particular, the store's database system was designed to make detailed information about each individual action figure's characteristics easily accessible. Price information and condition are also provided for each inventory item. In this database, the price of figures is a(an)
A) entity.
B) attribute.
C) field.
D) record.
Answer: B
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

45) The premier buyer and seller of vintage action figures in the San Francisco Bay area is Vini Vidi Geeky. Since 1996, the owner, Glamdring Elfthrall, has leveraged computer technology to provide a superior level of customer service. In particular, the store's database system was designed to make detailed information about each individual action figure's characteristics easily accessible. Price information and condition are also provided for each inventory item. In this database, the data about an individual figure is a(an)
A) entity.
B) attribute.
C) field.
D) record.
Answer: D
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

46) The premier buyer and seller of vintage action figures in the San Francisco Bay area is Vini Vidi Geeky. Since 1996, the owner, Glamdring Elfthrall, has leveraged computer technology to provide a superior level of customer service. In particular, the store's database system was designed to make detailed information about each individual action figure's characteristics easily accessible. Price information and condition are also provided for each inventory item. In this database, action figures (collectively) are a(an)
A) entity.
B) attribute.
C) field.
D) record.
Answer: A
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

47) The premier buyer and seller of vintage action figures in the San Francisco Bay area is Vini Vidi Geeky. Since 1996, the owner, Glamdring Elfthrall, has leveraged computer technology to provide a superior level of customer service. In particular, the store's database system was designed to make detailed information about each individual action figure's characteristics easily accessible. Price information and condition are also provided for each inventory item. In this database, the data about an individual figure's price is stored in a(an)
A) entity.
B) attribute.
C) field.
D) record.
Answer: C
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

48) Hector Sanchez works in the accounting department of a multinational manufacturing company. His job includes updating accounts receivable based on sales orders and remittance advices. His responsibilities are part of the company's
A) revenue cycle.
B) expenditure cycle.
C) financing cycle.
D) production cycle.
Answer: A
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Moderate
AACSB: Reflective Thinking

49) Hector Sanchez works in the accounting department of a multinational manufacturing company. His job includes updating accounts payable based on purchase orders and checks. His responsibilities are part of the company's
A) revenue cycle.
B) expenditure cycle.
C) financing cycle.
D) production cycle.
Answer: B
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Moderate
AACSB: Reflective Thinking

50) Many small businesses choose to outsource their payroll activities to firms that specialize in providing payroll services. Dolores Yu operates a payroll processing business in Calabasas, California. When she sends bills out to her clients, her work is part of her firm's
A) revenue cycle.
B) expenditure cycle.
C) financing cycle.
D) production cycle.
Answer: A
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Moderate
AACSB: Reflective Thinking

51) The coding technique most likely used for sales orders is called a
A) group code.
B) block code.
C) data code.
D) sequence code.
Answer: D
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

52) Data processing includes all of the following *except*
A) verifying subsidiary ledger balances.
B) changing customer addresses.
C) removing inventory items no longer offered.
D) adding the name of a new vendor.
Answer: A
Page Ref: 33
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

53) Which of the following is an example of an ERP system?
A) Alexis uses a computerized information system to keep track of all the financial data generated by her bakery. She is considering opening a new bakery on the east side of town.
B) Betty has a system that keeps track of the accounts payable and receivable for her plumbing business. At the end of the year, the system helps her to prepare her taxes in just two hours.
C) Charlie keeps records of all his business records in a shoe box. Each week he enters all of the data into spreadsheets that automatically generate purchase orders, based on predetermined inventory reorder points. Production quotas for the coming week are also automatically generated based on customer orders.
D) Doug is a free-lance photographer. He keeps records of all expenses and revenues on his cell phone and then emails them to himself every month. The files are stored on his personal computer and backed up to CD quarterly.
Answer: C
Page Ref: 36
Objective: Learning Objective 5
Difficulty : Moderate
AACSB: Reflective Thinking

54) A specialized journal would be *most* likely to be used to enter
A) sales transactions.
B) monthly depreciation adjustments.
C) annual closing entries.
D) stock issuance transactions.
Answer: A
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

55) The Cape Fear Rocket Club heads out to the dunes of Kittyhawk, North Carolina every August to pierce the sky with their fiery projectiles. An enterprising seller of t-shirts has devised a series of designs that capture the spirit of the event in silk-screened splendor. His employees can be found on many of the major intersections hawking his wares out of the backs of station wagons and pickup trucks. What is the best way for this business to ensure that sales data entry is efficient and accurate?
A) Well-designed paper forms
B) Source data automation
C) Turnaround documents
D) Sequentially numbered forms
Answer: D
Page Ref: 27
Objective: Learning Objective 2
Difficulty : Moderate
AACSB: Reflective Thinking

56) Which of the following information would *most* likely be reviewed by management on an exception report?
A) Monthly cash budget
B) Quality control system failures
C) Unit sales by territory and salesperson
D) Income statement
Answer: B
Page Ref: 34
Objective: Learning Objective 4
Difficulty : Moderate
AACSB: Reflective Thinking

57) All of the following situations would likely be communicated in an exception report *except*
A) production stoppages.
B) weekly credit and cash sales comparison.
C) low inventory level.
D) expense variances outside acceptable range.
Answer: B
Page Ref: 34
Objective: Learning Objective 4
Difficulty : Easy
AACSB: Reflective Thinking

58) Changing an employee's hourly wage rate would be recorded where?
A) Employee master file
B) Employee transaction file
C) Special journal
D) Employee update file
Answer: A
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Difficult
AACSB: Reflective Thinking

59) Which of the following statements is *not* correct?
A) The audit trail is intended to verify the validity and accuracy of transaction recording.
B) The audit trail consists of records stored sequentially in an audit file.
C) The audit trail provides the means for locating and examining source documents.
D) The audit trail is created with document numbers and posting references.
Answer: B
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

60) Data about which of the following facets of a business activity is most likely to be recorded in a transaction file?
A) Business activity
B) Resources affected by the business activity
C) People who participate in the business activity
D) Place the business activity occurs
Answer: A
Page Ref: 33
Objective: Learning Objective 3
Difficulty : Difficult
AACSB: Reflective Thinking

61) Data about all of the following facets of a business activity are most likely to be recorded in a master file *except* the
A) business activity.
B) resources affected by the business activity.
C) people who participate in the business activity.
D) place the business activity occurs.
Answer: A
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Difficult
AACSB: Reflective Thinking

62) Which of the following statements about data processing methods is *true*?
A) Online real-time processing does not store data in a temporary file.
B) Batch processing cannot be used to update a master file.
C) Control totals are used to verify accurate processing in both batch and online batch processing.
D) Online real-time processing is only possible with source data automation.
Answer: A
Page Ref: 33
Objective: Learning Objective 2
Difficulty : Difficult
AACSB: Reflective Thinking

63) In an ERP system, the module used to record data about transactions in the revenue cycle is called
A) order to cash.
B) purchase to pay.
C) financial.
D) customer relationship management.
Answer: A
Page Ref: 37
Objective: Learning Objective 5
Difficulty : Moderate
AACSB: Analytic

64) A delivery of inventory from a vendor, with whom a credit line is already established, would be initially recorded in which type of accounting record and as part of what transaction cycle?
A) purchases journal; expenditure cycle
B) general journal; expenditure cycle
C) general ledger; expenditure cycle
D) cash disbursements journal; production cycle
Answer: A
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Difficult
AACSB: Reflective Thinking

65) Implementation of an ERP system requires increased focus on all *except* which of the following controls ?
A) Segregation of duties between custody, authorization, and recording
B) Data entry controls on validity and accuracy
C) Controls over access to data
D) Appropriate disposal of hard copy reports
Answer: D
Page Ref: 38
Objective: Learning Objective 5
Difficulty : Moderate
AACSB: Analytic

66) Which statement below regarding the AIS and managerial reports is *false*?
A) The AIS is best utilized for financial data while the management information system is best utilized for operational data.
B) The AIS must be able to provide managers with detailed operational information about the organization's performance.
C) Both financial and nonfinancial data are required for proper and complete evaluation of organizational performance.
D) Most source documents capture both financial and nonfinancial data about business transactions.
Answer: A
Page Ref: 34
Objective: Learning Objective 4
Difficulty : Moderate
AACSB: Reflective Thinking

67) What is the purpose of source documents? What controls are embedded in source documents? Give two examples of source documents.
Answer: 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.
Page Ref: 27-28
Objective: Learning Objective 2
Difficulty : Easy
AACSB: Reflective Thinking

68) Describe an audit trail.
Answer: 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 it originated to where they end up on the financial statements
Page Ref: 31
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

69) Explain how data is organized and stored in an AIS.
Answer: 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.
Page Ref: 32
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

70) Describe the basic cycles and business activities for a typical merchandising company.
Answer: Revenue cycle □ deliver inventory to customers and collect cash. Expenditure cycle □ receive goods and services from vendors and pay cash. Human resources cycle □ track hours worked by employees and record withholding data.
Page Ref: 27
Objective: Learning Objective 1
Difficulty : Easy
AACSB: Analytic

71) Describe guidelines to follow for a well-designed coding system.
Answer: 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.
Page Ref: 29
Objective: Learning Objective 3
Difficulty : Easy
AACSB: Analytic

72) Describe the relationship between the general and subsidiary ledgers.
Answer: 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 for which individual subaccounts (for example, accounts receivable, accounts payable, inventory, and fixed assets) are required. The subsidiary ledger records and maintains the detail-level information by having a separate record for each customer, vendor, inventory item, or fixed asset. The sum of the subsidiary ledger balances should equal the balance in the general ledger account. A general ledger account that corresponds to a subsidiary ledger account is known as a control account.
Page Ref: 28
Objective: Learning Objective 3
Difficulty : Moderate
AACSB: Reflective Thinking

73) Describe four advantages and four disadvantages of implementing an ERP system at a multinational corporation.
Answer:
Advantages
Integrating information breaks down barriers between departments and streamlines the flow of information.
Data input is captured or keyed only once.
Management gains greater visibility into every area of the enterprise and has improved monitoring capabilities.
Better access control is established by consolidating multiple permissions and security models into a single data access structure.
Standardization of procedures and reports across business units.
Customer service improves as employees can quickly access data.
Increased productivity of employees.

Disadvantages
ERP systems are very costly.
Implementation is time consuming.
Changes to business processes are sometimes required, in order to minimize the customization needed.
Complexity of the system.
Employees may be resistant to implement and use an ERP system and change business processes.
Page Ref: 37-38
Objective: Learning Objective 5
Difficulty : Easy
AACSB: Analytic

74) Describe the methods used to collect data about business activities. Describe design and control considerations for each of the data collection methods.

Answer: Data about business activities can be collected with source documents, either on paper or electronic, turnaround documents, and source data automation.

Source documents define what data to collect about an activity, group logically related data close together, provide instructions on how to complete the document, include fields for approvals, and use preprinted standard data. Paper documents should be sequentially prenumbered to allow verification that all documents have been recorded. Electronic source documents should also utilize pull-down menus, drop-down boxes, default values, preformatting, auto sequential numbering, and prompting for complete data entry.

Turnaround documents often begin as output documents that are then sent to external users for further completion. Turnaround documents should utilize most of the same design and control considerations as source documents, but should include data in machine-readable form, such as bar codes or optical character recognition.

Source data automation utilizes technology to capture data in machine-readable form at the time and place the business activity occurs. Source data automation technology includes point-of-sale terminals, bar codes, RFID tags, and electronic data interchange. An especially important control consideration for source data automation is a way to indicate authorization of the activity.

Page Ref: 27
Objective: Learning Objective 2
Difficulty : Difficult
AACSB: Reflective Thinking