

## **Chapter 1**

### **Accounting Information Systems and the Accountant**

#### **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 payroll system might be an employee time card.
9. The starting point for an audit trail of a production department might be the purchase of 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.
17. As used in this chapter, the acronym SAR stands for “suspicious accounting reports.”
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” is an acronym for “providing appropriate tools required to intercept and obstruct terrorism.”
21. Section 352 of the Patriot Act requires auditors to verify that their organizations have adequate risk assessment systems.
22. Accounting systems are useful for performing accounting tasks, but *cannot* be used for such security purposes as countering terrorism.
23. The Sarbanes-Oxley Act includes a provision that prohibits corporations from making personal loans to executives.
24. The Sarbanes-Oxley Act prohibits companies from using the same auditing firms for performing both auditing and management consulting services.
25. As a result of corporate bankruptcies in 2002, some of the largest public accounting firms are no longer engaged in any consulting work.
26. A major output of financial accounting is the preparation of financial statements such as an income statement.
27. The series of steps leading from data recorded in transaction records to the information reported on financial statements is called the *accounting cycle*.
28. AISs are only concerned with financial information.
29. 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.
30. In a responsibility accounting system, every person within a company takes responsibility for the performance of every business unit.
31. One major difference between financial accounting and managerial accounting is that financial accountants use dashboards while managerial accountants do not.
32. An example of a financial report that would be prepared by a managerial accountant (instead of a financial accountant) is a budget report.
33. XBRL is a business reporting language that is used to define interactive financial data.
34. “Cost accounting” tasks are usually performed by financial accountants.
35. An ABC inventory system refers to an “activity-based costing” system.
36. As used in chapter 1, the term “dashboard” refers to a quick and easy plan to install a computerized accounting system in an organization.
37. As used in Chapter 1, a dashboard is an up-to-the-minute graphic depiction of one or more business activities.

38. 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.
39. The purpose of CPA Trust Services is to provide assurance that a company engaged in electronic commerce can provide the goods or services it promises.
40. An example of a value-added reseller (VAR) is a computer dealer that adds software to the hardware it sells.
41. Some possible career opportunities for AIS majors or minors include consulting positions, computerized auditing, or system computer auditing positions.
42. Accountants are usually classified as "line workers" within business organizations.
43. Today's AIS is an enterprise-wide information system that focuses on interdepartmental business processes.
44. Managerial accounting principally provides decision-making information to a company's internal managers.
45. As a result of computerized information processing systems in many organizations today, the need for accountants in these organizations has significantly declined.
46. Activity-based costing systems focus on allocating overhead on the basis of direct labor hours used.
47. 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.
48. Within the traditional AIS, a sales order would *not* be considered an accounting transaction.
49. Students majoring in AIS are unlikely to assume jobs in traditional accounting positions because they know too much.
50. There are limited career opportunities available for students who study both accounting and information systems.
51. One possible career for AIS majors is in the traditional area of financial or managerial accounting.
52. The CISA is an acronym for a professional accounting certification.

## Multiple-Choice Questions

53. The “S” in the acronym “AIS” stands for:
- a) Standard
  - b) System
  - c) Symbol
  - d) none of these
54. Which of the following is true?
- a) An AIS must be computerized to be useful
  - b) An AIS always produces useful information
  - c) An AIS always produces financial information
  - d) none of these
55. The letter “P” in the acronym “ERP” stands for:
- a) Production
  - b) Planning
  - c) Project
  - d) none of these
56. 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) Some “data” can also be “information”
  - d) none of these
57. If a manager suffers “information overload”:
- a) He or she must press the reset button on his or her computer
  - b) It means that this person needs a larger hard drive
  - c) The “information” is really just data
  - d) He or she must forget some facts in order to remember others
58. Which of the following captures the same idea as the term “GIGO?”
- a) Computers cannot turn straw into gold
  - b) Too much information is the same as garbage
  - c) Great investments lead to great returns
  - d) Too many cooks spoil the broth
59. Which of the following best describes a data warehouse as discussed in Chapter 1?
- 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 many business applications—some not accounting
  - d) A repository of information from many businesses in the same industry

60. 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
61. As used in the chapter, “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
62. 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
63. 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) Is a requirement under the Sarbanes-Oxley Law of 2002
  - e) none of these
64. 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
65. 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) Race tracks
66. 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 using data warehouses
  - c) AISs can help by denying financial aid to terrorist groups
  - d) AISs can help by identifying international embezzlers

67. 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
68. 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
69. The U.S. Patriot act:
- a) Requires banks to monitor their accounts in foreign institutions for fraud
  - b) Prohibits companies from lending money to corporate executives
  - c) Only applies to publicly-traded companies
  - d) all of these are correct
70. A good performance measurement system should evaluate:
- a) Profitability only
  - b) Customer satisfaction only
  - c) Those aspects of a unit's performance that are subject to its control
  - d) Those aspects of a unit's performance whether controllable or not
71. The managerial accounting component of the accounting subsystem contains *all but* which one of the following functions:
- a) Cost accounting
  - b) Financial accounting
  - c) Budgeting
  - d) Systems study
72. Managerial accounting principally provides information to:
- a) Stockholders
  - b) Government regulators (e.g., SEC, Federal bank examiners)
  - c) Internal company management
  - d) Potential creditors
73. 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
74. 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

75. The accounting subsystem must continually interact with the:
- a) Personnel subsystem
  - b) Information processing subsystem
  - c) Production subsystem
  - d) b and c only
  - e) a, b, and c
76. 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
77. 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
78. 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
79. Which of the following is *not* true regarding professional service firms?
- a) The SEC is in favor of professional service firms expanding their businesses to include consulting services
  - b) As a result of the corporate bankruptcies and accounting scandals in 2002, professional service firms no longer perform any consulting services
  - c) Professional service firms generally offer a variety of assurance services, including providing assurance over AISs
  - d) In the early 2000's, many large professional service firms sold off the majority of their consulting practices
80. The principal cause for more timely performance reports in the typical modern organization is due to:
- a) Better educated management
  - b) Adoption of progressive management philosophies which stress participative management (e.g., MBO)
  - c) Information processing systems
  - d) Need for less information

81. The P in the acronym KPI stands for:
- a) Processing
  - b) Performance
  - c) Planning
  - d) Personnel
  - e) none of these
82. 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
83. Which of the following is intended to solve the problem that financial data used in one application is *not* easily transferable to other applications?
- a) XMP
  - b) ERP
  - c) XBRL
  - d) XMLP
84. "Excessive data reporting" can result in:
- a) Massive quantities of data printed out by a company's computer
  - b) The generation of unnecessary reports
  - c) Subsystem managers' belief that it is a status symbol to receive large numbers of internally generated reports
  - d) Inefficient decision making by subsystem managers due to a lack of relevant information
  - e) all of the above
85. 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
86. 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



87. Which of the following *best* describes assurance services?
- a) Auditors are desperate to offer assurance services so that they will still have business in the future
  - b) Assurance and auditing are closely related
  - c) Assurance is a guarantee that there is no fraud in a company
  - d) Assurance services usually require expertise in information technology
88. 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
89. 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
90. The designation for a licensed information systems audit professional is:
- a) CPA
  - b) CMA
  - c) CIA
  - d) CISA
91. The certified information systems auditor certification is sponsored by:
- a) ISACA
  - b) AICPA
  - c) IMA
  - d) none of these
92. 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 improve performance
  - c) It is a method used to prevent managers from overriding internal controls
  - d) none of the above
93. 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

94. An advantage of cloud computing is that:
- a) No one understands it, including hackers and would-be fraudsters
  - b) All data inputs, processing, and outputs are hidden
  - c) Users pay only for the services they require
  - d) Smaller businesses or government agencies cannot use it
95. Which of these is *least* likely to be an example of a cloud computing service?
- a) The development of a web site for a retail store
  - b) The remote processing of payroll records for a manufacturer
  - c) The use of computer time on a remote supercomputer by a research firm
  - d) Interviewing candidates for an executive accountant
  - e) all of these are reasonable examples of cloud computing services
96. Which of these is a drawback of cloud computing?
- a) Inability to handle periods of peak processing loads
  - b) Users must still invest heavily in computer resources of their own
  - c) Requires users to pay for services, whether they use them or not
  - d) May requires users to trust service provider with sensitive data
  - e) none of these are drawbacks of cloud computing
97. Which of these terms is most closely associated with cloud computing?
- a) Data processing
  - b) Outsourcing
  - c) Data communications
  - d) Source programming language
  - e) Compiling

## Matching Questions

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

98. \_\_\_\_\_ OSC  
 99. \_\_\_\_\_ SAR  
 100. \_\_\_\_\_ CISA  
 101. \_\_\_\_\_ ERP  
 102. \_\_\_\_\_ XBRL  
 103. \_\_\_\_\_ ISACA  
 104. \_\_\_\_\_ IT  
 105. \_\_\_\_\_ REA  
 106. \_\_\_\_\_ KPI  
 107. \_\_\_\_\_ SOX

### Definitions:

- A. An international professional association that deals with IT Governance
- B. Federal legislation passed in response to recent accounting scandals
- C. An enterprise-wide information system
- D. Federally-mandated reporting of suspicious accounting activities
- E. An important database design approach
- F. Key productivity indicator
- G. A standardized business reporting language similar to HTML
- 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 federal initiative to thwart terrorists intent on harming cargo transport
- L. An important performance indicator

## Short Answer Questions

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