

Accounting Information Systems, 13e, Global Edition (Romney/Steinbart)
Chapter 1 Accounting Information Systems: An Overview

1.1 Distinguish data from information, discuss the characteristics of useful information, and explain how to determine the value of information.

1) Which of the following statements below shows the contrast between data and information?

- A) Data is the output of an AIS.
- B) Information is the primary output of an AIS.
- C) Data is more useful in decision making than information.
- D) Data and information are the same.

Answer: B

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

2) Information is best described as

- A) raw facts about transactions.
- B) data that has been organized and processed so that it is meaningful to the user.
- C) facts that are useful when processed in a timely manner.
- D) the same thing as data.

Answer: B

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

3) The value of information can best be determined by

- A) its usefulness to decision makers.
- B) its relevance to decision makers.
- C) the benefits associated with obtaining the information minus the cost of producing it.
- D) the extent to which it optimizes the value chain.

Answer: C

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

4) An accounting information system (AIS) processes _____ to provide users with _____.

- A) data; information
- B) data; transactions
- C) information; data
- D) data; benefits

Answer: A

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

5) _____ information reduces uncertainty, improves decision makers' ability to make predictions, or confirms expectations.

- A) Timely
- B) Reliable
- C) Relevant
- D) Complete

Answer: C

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

6) Information that is free from error or bias and accurately represents the events or activities of the organization is

- A) relevant.
- B) reliable.
- C) verifiable.
- D) timely.

Answer: B

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

7) Information that does not omit important aspects of the underlying events or activities that it measures is

- A) complete.
- B) accessible.
- C) relevant.
- D) timely.

Answer: A

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

8) Information is _____ when two knowledgeable people independently produce the same information.

- A) verifiable
- B) relevant
- C) reliable
- D) complete

Answer: A

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

9) Data must be converted into information to be considered useful and meaningful for decision making. There are six characteristics that make information both useful and meaningful. If information is free from error or bias and accurately represents the events or activities of the organization, it is representative of the characteristic of

- A) relevancy.
- B) timeliness.
- C) understandability.
- D) reliability.

Answer: D

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

10) Inventory information is provided in real time by a firm's accounting information system. The accuracy of this information is questionable, however, since the production manager often reports stock outs of components that the system indicates are in stock. Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: B

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

11) Cheryl Metrejean has been the controller of Downtown Tires for 25 years. Ownership of the firm recently changed hands and the new owners are conducting an audit of the financial records. The audit has been unable to reproduce financial reports that were prepared by Ms. Metrejean. While there is no evidence of wrongdoing, the auditors are concerned that the discrepancies might contribute to poor decisions. Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: F

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

12) In 2003, Singh Manufacturing implemented a Web-based information system that allows all employees to access mission-critical information. The intention was to increase production efficiency. Unfortunately, it had the opposite effect, as deliveries fell behind schedule and costs increased. Shaman Gupta, the director of information technology services, asked Ashlee Wells to come in and talk with him about the system. Ashlee is a long-time employee of Singh, and her opinion is valued by her peers and by her supervisor.

"So Ashlee, how's it going down there in the shop?"

"Not so good, Shaman. Used to be we got a weekly pick list so we knew how to plan production. Now, we got that computer system. Most of us can't figure out how to use it to do our jobs. Is there some way to print out a pick list?"

Shaman thought for a while before responding. "Well, Ashlee, to tell you the truth, I'm not so sure how to do it myself, but there must be a way. We'll bring in the consultants that helped us build the system. Maybe they can help."

Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: E

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

13) Wisconsin Dells, Wisconsin, is a popular tourist destination. During the winter months, the population dwindles to a meager few, but when summer comes, the size of the town surges. Hunter Jackson is the town sanitation engineer. When the size of the town surges, so do his responsibilities. Among them is management of the sewage processing volume.

In an interview with the local paper, Hunter complained that a report on tourist population that he uses to adjust processing volume refers to data that was collected four days ago and it takes him a week to make adjustments. Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: D

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

14) A frantic Barney Rubble lost a large sale because he could not access the system to verify the inventory was in stock and ready to be shipped. Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: G

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

15) Message left on voicemail: "Hi Nikki! Just landed at the airport. How about dinner this evening if you're available. Call me!" Which of the following characteristics of useful information is absent in the situation described above?

- A) relevant
- B) reliable
- C) complete
- D) timely
- E) understandable
- F) verifiable
- G) accessible

Answer: C

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

16) Chopra, Limited, is an Indian company operating in New York state. It offers stylized, boutique public relations services to upscale retailers in quaint New England towns. A major source of revenue is a weekly newsletter that reports on current and projected tourist travel and spending patterns. Preparation of the newsletter requires study and analysis of weather conditions, economic activity, and travel costs. It is available at an annual subscription rate of \$299.99. There are currently 190 subscribers. Preparation and distribution of the newsletter costs \$12,000 annually. The value of information to subscribers is

- A) \$236.83.
- B) \$44,998.10.
- C) less than \$63.16.
- D) at least \$300.00.

Answer: D

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

17) Baggins Incorporated identifies new product development and product improvement as the top corporate goals. An employee developed an innovation that will correct a shortcoming in one of the company's products. Although Baggins current Return on Investment (ROI) is 15%, the product innovation is expected to generate ROI of only 12%. As a result, the employee fails to follow up. As a result, awarding bonuses to employees based on ROI resulted in

- A) goal conflict.
- B) information overload.
- C) goal congruence.
- D) decreased value of information.

Answer: A

Objective: Learning Objective 1

Difficulty: Difficult

AACSB: Analytic

18) Which of the following tradeoffs between characteristics of useful information is *least* objectionable?

- A) incomplete information received on a timely basis
- B) irrelevant information received in an understandable format
- C) unreliable information easily accessible
- D) verifiable information received in unreadable format

Answer: A

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

19) Which of the following is *not* one of the three basic types of data about a specific sales transaction that should be captured by an Accounting Information System?

- A) name of the employee who completed the sale
- B) daily sales quota
- C) product sold
- D) date

Answer: B

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

20) Define the concept of a system.

Answer: A system is a set of two or more components that are somehow interrelated and interact together to achieve a specific goal.

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

21) Define data, information, and how the value of information is determined.

Answer: Data: facts that are collected, entered, recorded, stored, and processed by an AIS.

Information: data that has been organized and processed and is meaningful to its users. Such information is accessible, relevant, timely, reliable, verifiable, complete, and understandable.

Information is of value when the benefits received from using or acting upon it outweigh the cost to produce the information.

Objective: Learning Objective 1

Difficulty: Easy

AACSB: Analytic

22) Discuss the concept of a system and the issues of goal conflict and goal congruence.

Answer: A system is a set of two or more components that are somehow interrelated and interact together to achieve a specific goal. A system usually consists of smaller components called subsystems. These subsystems have specific and defined functions, which interact with and support the larger system. The concept of systems is key to information technology and AIS. All systems, including the AIS, must work to achieve one or more organizational goals. Goal conflict results when a decision or action of a subsystem is inconsistent with another subsystem or the system (organization) as a whole. Goal congruence results when a subsystem achieves its goals while contributing to the organization's overall goal. Subsystems should maximize organizational goals.

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

23) Discuss the seven characteristics of useful information.

Answer: The seven characteristics of useful information are: relevant, reliable, complete, timely, understandable, verifiable and accessible. These characteristics are qualities that information should possess to be useful in a business environment. Briefly stated, in order for information to be useful it must be: 1) relevant, meaning that it reduces uncertainty and adds to the decision-making process; 2) reliable information is information that is free from error, and is accurate in its nature; 3) complete information is information that does not omit any important data, facts, or aspects about events or activities; 4) information is timely when it is fully available to enable the decision-making process to proceed; 5) understandable information must be both in an intelligible and useful format; 6) information is considered verifiable if two people, acting independently of each other, produce the same information or the same results. 7) Information is accessible if it is available to users when they need it and in a format they can use.

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

24) Discuss the concept of a system and the issues of goal conflict and goal congruence.

Answer: A system is a set of two or more components that are somehow interrelated and interact together to achieve a specific goal. A system usually consists of smaller components called subsystems. These subsystems have specific and defined functions, which interact with and support the larger system. The concept of systems is key to information technology and AIS. All systems, including the AIS, must work to achieve one or more organizational goals. Goal conflict results when a decision or action of a subsystem is inconsistent with another subsystem or the system (organization) as a whole. Goal congruence results when a subsystem achieves its goals while contributing to the organization's overall goal. Subsystems should maximize organizational goals.

Objective: Learning Objective 1

Difficulty: Moderate

AACSB: Analytic

1.2 Explain the decisions an organization makes and the information needed to make them.

1) Paid time-off policies, job descriptions, and procedures manuals are examples of information needed to support key decisions in what business process?

- A) hire and train employees
- B) acquire inventory
- C) sell merchandise
- D) collect payment from customers

Answer: A

Objective: Learning Objective 2

Difficulty: Easy

AACSB: Analytic

2) Before a firm can identify the information needed to effectively manage a process, the firm must

- A) understand the process .
- B) hire programmers.
- C) purchase computers and/or workstations.
- D) obtain internet access.

Answer: A

Objective: Learning Objective 2

Difficulty: Easy

AACSB: Analytic

3) Identify the piece of information below that is typically needed to acquire a building.

- A) job descriptions
- B) vendor performance
- C) market coverage
- D) capacity needs

Answer: D

Objective: Learning Objective 2

Difficulty: Moderate

AACSB: Analytic

4) Identify the piece of information below that is typically needed to acquire inventory.

- A) job descriptions
- B) vendor performance
- C) market coverage
- D) capacity needs

Answer: B

Objective: Learning Objective 2

Difficulty: Moderate

AACSB: Analytic

5) Identify the piece of information below that is typically needed to hire and train employees.

- A) job descriptions
- B) vendor performance
- C) market coverage
- D) capacity needs

Answer: A

Objective: Learning Objective 2

Difficulty: Easy

AACSB: Analytic

6) How can query languages be used to help make better decisions?

- A) They can suggest a course of action.
- B) They can gather relevant data for decision making.
- C) They can help the decision maker to interpret results.
- D) They can model choose among alternative courses of action.

Answer: B

Objective: Learning Objective 2

Difficulty: Difficult

AACSB: Analytic

7) What is a key decision that needs to be made with regards to selling merchandise?

- A) which credit cards to accept
- B) which employees to hire
- C) which public accounting firm to employ
- D) how much capital to acquire

Answer: A

Objective: Learning Objective 2

Difficulty: Easy

AACSB: Analytic

8) What is a key decision that needs to be made with regards to acquiring inventory?

- A) which credit cards to accept
- B) which employees to hire
- C) which vendors to use
- D) how much capital to acquire

Answer: C

Objective: Learning Objective 2

Difficulty: Moderate

AACSB: Analytic

9) What is a key decision that needs to be made with regards to acquiring equipment?

- A) the location
- B) pro forma income statement
- C) how much capital to acquire
- D) job descriptions

Answer: A

Objective: Learning Objective 2

Difficulty: Easy

AACSB: Analytic

1.3 Identify the information that passes between internal and external parties and an AIS.

1) One group that relies on both the adequate collection and transformation of data for decision-making purposes for an organization is

- A) management.
- B) interested outsiders.
- C) competitors.
- D) the government.

Answer: A

Objective: Learning Objective 3

Difficulty: Easy

AACSB: Analytic

2) Who of the following is *not* a stakeholder with whom an accounting information system typically communicates directly?

- A) Wall Street industry analyst
- B) venture capitalist
- C) company that supplies raw materials
- D) company that purchases finished goods for resale to consumers

Answer: A

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

3) In which transaction cycle would customer sales transaction information be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: A

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

4) In which transaction cycle would information for inventory purchases be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: B

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

5) In which transaction cycle would information for paying employees be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: C

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

6) In which transaction cycle would information for paying interest be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: D

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

7) In which transaction cycle would information for borrowing money be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: D

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

8) In which transaction cycle would information for hiring employees be most likely to pass between internal and external accounting information systems?

- A) the revenue cycle
- B) the expenditure cycle
- C) the human resources / payroll cycle
- D) the financing cycle

Answer: C

Objective: Learning Objective 3

Difficulty: Easy

AACSB: Analytic

9) Identify the party below that is *not* external to the firm.

- A) customer
- B) vendor
- C) government agencies
- D) CEO

Answer: D

Objective: Learning Objective 3

Difficulty: Moderate

AACSB: Analytic

10) Identify the party below that is *not* internal to the firm.

- A) customer
- B) management
- C) employees
- D) CEO

Answer: A

Objective: Learning Objective 3

Difficulty: Easy

AACSB: Analytic

1.4 Describe the major business processes present in most companies.

1) Obtaining financing from outside investors is part of which cycle?

- A) the revenue cycle
- B) the financing cycle
- C) the production cycle
- D) the payroll cycle

Answer: B

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

2) The _____ is *not* a transaction cycle.

- A) general ledger and reporting cycle
- B) expenditure cycle
- C) revenue cycle
- D) human resources cycle

Answer: A

Objective: Learning Objective 4

Difficulty: Moderate

AACSB: Analytic

3) Identify the false statement below.

- A) Retail stores do not have a production cycle.
- B) Financial institutions have installment-loan cycles.
- C) Every organization should implement every transaction cycle module.
- D) A service company does not have an inventory system.

Answer: C

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

4) Transaction cycles can be summarized on a high level as "give-get" transactions. An example of "give-get" in the revenue cycle would be

- A) give cash, get goods.
- B) give goods, get cash.
- C) give cash, get labor.
- D) give cash, get cash.

Answer: B

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

5) Groups of related business activities such as the acquisition of merchandise and payment of vendors are called

- A) transaction cycles.
- B) economic cycles.
- C) business events.
- D) transactions.

Answer: A

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

6) The transaction cycle that includes the events of hiring employees and paying them is known as the

- A) revenue cycle.
- B) expenditure cycle.
- C) human resources cycle.
- D) financing cycle.

Answer: C

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

7) The transaction cycle approach yields efficiencies when processing of a large number of transactions because

- A) a large number of transactions within a given cycle can be categorized into a relatively small number of distinct types.
- B) transaction cycles are easier to computerize.
- C) the transaction cycle approach represents the natural order of business.
- D) transaction cycles are easy to understand.

Answer: A

Objective: Learning Objective 4

Difficulty: Moderate

AACSB: Analytic

8) Paying state payroll taxes is part of which transaction cycle?

- A) human resources/payroll
- B) expenditure
- C) financing
- D) revenue

Answer: A

Objective: Learning Objective 4

Difficulty: Moderate

AACSB: Analytic

9) Who of the following would *not* be involved in the revenue cycle?

- A) accounts payable clerk
- B) customer
- C) cashier
- D) credit manager

Answer: A

Objective: Learning Objective 4

Difficulty: Easy

AACSB: Analytic

10) How are "Give and Take" transactions classified in business today and what impact does this have on AIS?

Answer: The concept of "Give and Take" transactions has been used to classify business transactions into "cycles" that have starting points, processes, and end points (or closure). The majority of business transactions can be classified as revenue, expenditure, human resources (payroll), production, and financing cycles. AIS has been modeled after these transaction cycles to achieve its basic functions of collecting and processing data, providing information useful for decision making, and establishing adequate controls.

Objective: Learning Objective 4

Difficulty: Moderate

AACSB: Analytic

1.5 Explain what an accounting information system (AIS) is and describe its basic functions.

1) An accounting information system must be able to perform which of the following tasks?

- A) collect transaction data
- B) process transaction data
- C) provide adequate controls
- D) all of the above

Answer: D

Objective: Learning Objective 5

Difficulty: Easy

AACSB: Analytic

2) Which of the following is *not* an example of a common activity in an AIS?

- A) buy and pay for goods and services
- B) sell goods and services and collect cash
- C) summarize and report results to interested parties
- D) record sales calls for marketing purposes

Answer: D

Objective: Learning Objective 5

Difficulty: Easy

AACSB: Analytic

3) Which of the following is *not* one of the components of an AIS?

- A) internal controls and security measures
- B) people
- C) procedures and instructions
- D) hardware

Answer: D

Objective: Learning Objective 5

Difficulty: Easy

AACSB: Analytic

4) The primary objective of accounting is to

- A) implement strong internal controls.
- B) provide useful information to decision makers.
- C) prepare financial statements.
- D) ensure the profitability of an organization.

Answer: B

Objective: Learning Objective 5

Difficulty: Moderate

AACSB: Analytic

5) Many modern accounting software packages offer separate transaction cycle modules. What is the reason for this?

- A) Every organization does not need to implement all of the available transaction cycle modules.
- B) Most businesses do not need the revenue cycle module as part of their AIS.
- C) The nature of a given transaction cycle is the same irrespective of the type of organization.
- D) A properly designed AIS does not use the concept of separate business transaction cycles to process transactions.

Answer: A

Objective: Learning Objective 5

Difficulty: Moderate

AACSB: Analytic

6) Define an accounting information system.

Answer: An AIS is a system that collects, records, stores, and processes data to produce information for decision makers.

Objective: Learning Objective 5

Difficulty: Easy

AACSB: Analytic

7) Identify the components of an accounting information system.

Answer: A well-designed AIS consists of people, procedures and instructions, data, software, information technology infrastructures, and internal controls and security measures.

Objective: Learning Objective 5

Difficulty: Moderate

AACSB: Analytic

8) Explain what an AIS is, describe the basic tasks it performs in an organization, and give some examples of the types of accounting transactions it processes.

Answer: An AIS consists of six components: people, procedures and instructions, data, software, information technology infrastructures, and internal controls and security measures.

The AIS performs three major functions: 1) it collects and stores data about activities and transactions so that the organization's management, employees, and interested outsiders can review what has happened; 2) the AIS processes data (that is, facts that have been collected and stored) into information that is useful for making decisions, and is of value to the organization; and 3) the AIS provides adequate controls designed to safeguard the organization's assets, including its data and information. Common examples of accounting transactions that an AIS helps to process and track are the sales of products to customers, cash collections, cash payments, and the recording and payment of the employees' payroll.

Objective: Learning Objective 5

Difficulty: Moderate

AACSB: Analytic

9) Why have accounting software packages been designed with separate transaction modules?

Answer: Since every organization does not necessarily use all of the transaction cycles in its operations, it is to the advantage of the organization to be able to "pick and choose" from among various software modules that track and record different transaction cycles. For example, a law firm would have no need to implement a production cycle module. Also, the nature of a transaction cycle varies across the broad spectrum of business organizations. Again, a law firm would have a revenue cycle, but it would not involve the purchase, receipt, and payment for products or merchandise; likewise a retail store chain may not sell any consulting services to its customers.

Objective: Learning Objective 5

Difficulty: Easy

AACSB: Analytic

10) True or False: An accounting information system requires at least one computer.

Answer: FALSE

Objective: Learning Objective 5

Difficulty: Moderate

AACSB: Analytic

1.6 Discuss how an AIS can add value to an organization.

1) The American Institute of Certified Public Accountants (AICPA) has recognized the importance of AIS and the major impact information technology has on the area of accounting. To recognize individual CPAs who have met educational and experiential requirements in this area, the group formally created the designation known as

- A) the Certified Information Auditor.
- B) the Certified Internal Auditor.
- C) the Certified Information Technology Professional.
- D) the Certified Data Processing Professional.

Answer: C

Objective: Learning Objective 6

Difficulty: Moderate

AACSB: Analytic

2) The AIS must include controls to ensure

- A) safety and availability of data.
- B) marketing initiatives match corporate goals.
- C) information produced from data is accurate.
- D) both A and C

Answer: D

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

3) An AIS provides value by

- A) improving products or services through information that increases quality and reduces costs.
- B) providing timely and reliable information to decision makers.
- C) creating new products.
- D) both A and B

Answer: D

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

4) A good example of how an AIS is used to share knowledge within an organization is

- A) the use of a corporate database to help staff identify the relevant experts who can help with a particular client.
- B) the use of tablets to access a network for messaging worldwide.
- C) the monitoring of production equipment to watch for defects.
- D) the use of point-of-sale data to determine hot-selling items.

Answer: A

Objective: Learning Objective 6

Difficulty: Moderate

AACSB: Analytic

5) When the AIS provides information in a timely and accurate manner, it stands as an example of

- A) improved decision making.
- B) improving the quality and reducing the costs of products or services.
- C) improving efficiency.
- D) all of the above

Answer: D

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

6) Accounting information plays major roles in managerial decision making by

- A) identifying situations requiring management action.
- B) reducing uncertainty.
- C) providing a basis for choosing among alternative actions.
- D) all of the above

Answer: D

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

7) A well-designed AIS can improve the decision making in an organization. Identify the statement below that describes a situation where an AIS may actually inhibit effective decision making.

- A) An AIS provides to its users an abundance of information without any filtering or condensing of such information.
- B) An AIS identifies situations requiring management action.
- C) An AIS reduces uncertainty, and therefore accounting information can provide a basis for choosing among alternative courses of action.
- D) An AIS provides information about the results of previous decisions which provides decision makers with feedback that can be used in future decision making.

Answer: A

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

8) Which of the following is *not* an example of how an AIS adds value to an organization?

A) All employees at a hospital can access and update patient records from any computer terminal in the hospital.

B) A customer service representative can find a customer's account data, purchase history, payment history, and salesperson's name while on the phone with the customer, to resolve issues quickly.

C) Suppliers are able to access sales data directly from the point-of-sale system of a retailer and deliver inventory automatically when needed.

D) Client tax files are encrypted and made available on the CPA firm's network to any employee with an access code.

Answer: A

Objective: Learning Objective 6

Difficulty: Difficult

AACSB: Analytic

9) What is the CITP designation and why is it important to AIS?

Answer: The CITP designation stands for "Certified Information Technology Professional." It is awarded to CPAs who have demonstrated a broad range of knowledge and skill sets in the areas of accounting and information systems and technology. The AICPA (American Institute of CPAs) has acknowledged the importance and close relationship that accounting and information systems share in creating this specialty designation for accounting information system professionals.

Objective: Learning Objective 6

Difficulty: Easy

AACSB: Analytic

10) Differentiate between an AIS course and other accounting courses.

Answer: Other accounting courses assume the preparation or reporting of accounting information is for external or internal users. However, the AIS course focuses on the flow of accounting information in the organization from a systems perspective. The AIS course traces the origin, processing, storing, and ultimate disposal of information. An AIS course also focuses on business processes, organization structure, information systems, and corporate planning and goals.

Objective: Learning Objective 6

Difficulty: Difficult

AACSB: Analytic

11) How can an AIS add value to the organization?

Answer: An AIS can increase the efficiency and effectiveness of the value chain by improving the quality and lowering costs of products or services, improving efficiency of operations, improving decision making, enhancing the sharing of knowledge, improving the efficiency and effectiveness of its supply chain and improving the internal control structure.

Objective: Learning Objective 6

Difficulty: Moderate

AACSB: Analytic

12) How can an AIS become part of the firm's value chain and add value to the business?

Answer: The AIS can add value by: helping to improve products and services an organization offers for sale; increasing the quality of products and services; creating greater efficiency by reducing costs and saving time; and improving the overall efficiency of the organization.

Decision making is enhanced by the better availability of timely, complete, reliable, verifiable, and relevant information. A firm can enjoy a competitive advantage with better customer ordering, billing, and customer service made possible by an improved AIS. The AIS can also enhance overall communication and use of knowledge in a business by making the knowledge readily available to interested parties.

Objective: Learning Objective 6

Difficulty: Moderate

AACSB: Analytic

13) How can the value of the information produced by an accounting information system be determined? What would a measurement and verification expert think about quantification and verification of such information?

Answer: A well-designed AIS improves the efficiency and effectiveness of the value chain by improving the quality and lowering the overall cost of products or services, improving efficiency of operations, improving decision making, and enhancing the sharing of knowledge. These are the benefits of possessing and using information. Drawbacks to possessing and using such information are the costs of obtaining and maintaining such information. These costs include investments in people, processes, and computing and networking hardware and software on an ongoing basis. Costs of the information are quantifiable to some extent. However, some of the benefits of using the information involve numerous estimates and assumptions. As such, the quantification of the benefits of utilizing such information depends on the accuracy of the assumptions.

Objective: Learning Objective 6

Difficulty: Difficult

AACSB: Analytic

1.7 Explain how an AIS and corporate strategy affect each other.

1) A change in the AIS that makes information more easily accessible and widely available within an organization is most likely to first influence the

A) organizational culture.

B) customer base.

C) external financial statement users.

D) production activity.

Answer: A

Objective: Learning Objective 7

Difficulty: Easy

AACSB: Analytic

2) In Chapter 1, Figure 1-4 shows the factors that influence the design of AIS. The diagram shows a bi-directional arrow between the organizational culture and the AIS. The reason for this two-way interchange between organizational culture and AIS is

- A) that the AIS should not influence the values of the organizational culture.
- B) because the organization's culture influences the AIS, and likewise the AIS influences the organization's culture by controlling the flow of information within the organization.
- C) due to the transfer of managers between the two corporate elements.
- D) the AIS impacts the organization's key strategies.

Answer: B

Objective: Learning Objective 7

Difficulty: Easy

AACSB: Analytic

3) Which of the following is a *true* statement?

- A) Business strategy directly influences AIS, but not information technology.
- B) Information technology directly influences organizational culture, but not business strategy.
- C) Organizational culture directly influences business strategy, but not AIS.
- D) AIS directly influences information technology, but not business strategy.

Answer: A

Objective: Learning Objective 7

Difficulty: Difficult

AACSB: Analytic

4) True or False: Corporate strategy should affect the way a firm deploys an accounting information system.

Answer: TRUE

Objective: Learning Objective 7

Difficulty: Easy

AACSB: Analytic

5) Identify the primary reason that it is important for a firm to identify the AIS improvements likely to yield the greatest return.

- A) because business strategy directly influences AIS, but not information technology
- B) because most organizations have limited resources
- C) because a firm never wants to waste time addressing issues that are not urgent
- D) because it is expensive to improve accounting information systems

Answer: B

Objective: Learning Objective 7

Difficulty: Moderate

AACSB: Analytic

6) An AIS that makes information more easily accessible and more widely available is likely to increase pressure for

- A) centralization and defined procedures.
- B) centralization and autonomy.
- C) decentralization and defined procedures.
- D) decentralization and autonomy.

Answer: D

Objective: Learning Objective 7

Difficulty: Difficult

AACSB: Analytic

7) Identify how firms use *predictive analysis*.

- A) to provide an educated guess regarding what is expected to occur in the near future
- B) to engage in data warehousing
- C) to engage in a low-cost strategy
- D) to design the most effective accounting information system

Answer: A

Objective: Learning Objective 7

Difficulty: Moderate

AACSB: Analytic

8) Identify a recent technological advance that provides an opportunity to gain a competitive advantage.

- A) CVVP analysis
- B) discounted cash flows
- C) predictive analysis
- D) economic order quantity (EOQ)

Answer: C

Objective: Learning Objective 7

Difficulty: Difficult

AACSB: Analytic

9) True or False: It is important that a firm's AIS collect and integrate financial and non-financial information about the organization's activities if the firm seeks use its AIS to gain a competitive advantage.

Answer: TRUE

Objective: Learning Objective 7

Difficulty: Easy

AACSB: Analytic

10) True or False: When properly deployed, accounting information systems can provide firms with a competitive advantage.

Answer: TRUE

Objective: Learning Objective 7

Difficulty: Easy

AACSB: Analytic

1.8 Explain the role an AIS plays in a company's value chain.

- 1) The process of creating value for customers is the result of nine activities that form a
- A) value chain.
 - B) capitalist operation.
 - C) profitable business.
 - D) information system.

Answer: A

Objective: Learning Objective 8

Difficulty: Easy

AACSB: Analytic

- 2) The value chain concept is composed of two types of activities known as
- A) primary and support.
 - B) primary and secondary.
 - C) support and value.
 - D) technology and support.

Answer: A

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

- 3) Which of the following is a primary activity in the value chain?
- A) infrastructure
 - B) technology
 - C) purchasing
 - D) marketing and sales

Answer: D

Objective: Learning Objective 8

Difficulty: Easy

AACSB: Analytic

- 4) Arranging delivery of products to customers constitutes _____ in value chain analysis.
- A) shipping
 - B) inbound logistics
 - C) outbound logistics
 - D) delivery

Answer: C

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

- 5) _____ are examples of activities that constitute inbound logistics
- A) Activities that transform inputs into final products or services
 - B) Activities that consist of receiving, storing, and distributing the materials used as inputs by the organization to create goods and/or services it sells
 - C) Activities that provide post-sale support to customers
 - D) Activities that help customers to buy the organization's products or services

Answer: B

Objective: Learning Objective 8

Difficulty: Easy

AACSB: Analytic

- 6) One activity within the value chain is research and development. This activity can be identified as a

- A) firm infrastructure activity.
- B) human resources activity.
- C) technology activity.
- D) purchasing activity.

Answer: C

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

- 7) Clemente Santiago has formed a business that sells carved gourmet coconuts. He has hired five employees. The most senior is Friday, who manages the carving process. Monday is the newest employee. She collects the coconuts. Tuesday takes calls from unhappy customers. Wednesday tosses finished coconuts into the sea, sending them to the wholesaler. Thursday sends smoke signals to the wholesaler extolling the virtues of the latest production run of nuts that are drifting across the bay. Which of the following functions in the value chain is Monday performing?

- A) Inbound logistics
- B) Operations
- C) Outbound logistics
- D) Marketing and sales
- E) Service

Answer: A

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

8) Clemente Santiago has formed a business that sells carved gourmet coconuts. He has hired five employees. The most senior is Friday, who manages the carving process. Monday is the newest employee. She collects the coconuts. Tuesday takes calls from unhappy customers. Wednesday tosses finished coconuts into the sea, sending them to the wholesaler. Thursday sends smoke signals to the wholesaler extolling the virtues of the latest production run of nuts that are drifting across the bay. Which of the following functions in the value chain is Friday performing?

- A) Inbound logistics
- B) Operations
- C) Outbound logistics
- D) Marketing and sales
- E) Service

Answer: B

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

9) Clemente Santiago has formed a business that sells carved gourmet coconuts. He has hired five employees. The most senior is Friday, who manages the carving process. Monday is the newest employee. She collects the coconuts. Tuesday takes calls from unhappy customers. Wednesday tosses finished coconuts into the sea, sending them to the wholesaler. Thursday sends smoke signals to the wholesaler extolling the virtues of the latest production run of nuts that are drifting across the bay. Which of the following functions in the value chain is Wednesday performing?

- A) Inbound logistics
- B) Operations
- C) Outbound logistics
- D) Marketing and sales
- E) Service

Answer: C

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

10) Clemente Santiago has formed a business that sells carved gourmet coconuts. He has hired five employees. The most senior is Friday, who manages the carving process. Monday is the newest employee. She collects the coconuts. Tuesday takes calls from unhappy customers. Wednesday tosses finished coconuts into the sea, sending them to the wholesaler. Thursday sends smoke signals to the wholesaler extolling the virtues of the latest production run of nuts that are drifting across the bay. Which of the following functions in the value chain is Thursday performing?

- A) Inbound logistics
- B) Operations
- C) Outbound logistics
- D) Marketing and sales
- E) Service

Answer: D

Objective: Learning Objective 8

Difficulty: Easy

AACSB: Analytic

11) Clemente Santiago has formed a business that sells carved gourmet coconuts. He has hired five employees. The most senior is Friday, who manages the carving process. Monday is the newest employee. She collects the coconuts. Tuesday takes calls from unhappy customers. Wednesday tosses finished coconuts into the sea, sending them to the wholesaler. Thursday sends smoke signals to the wholesaler extolling the virtues of the latest production run of nuts that are drifting across the bay. Which of the following functions in the value chain is Tuesday performing?

- A) Inbound logistics
- B) Operations
- C) Outbound logistics
- D) Marketing and sales
- E) Service

Answer: E

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

12) What is the purpose behind the five primary activities in the value chain?

Answer: The goal of the five primary activities in the value chain is to facilitate the business in providing value to its customers. The five primary activities allow the business to create, market, and deliver its products and services to its customers, as well as providing postsale support.

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

13) How can a well-designed AIS improve the efficiency and effectiveness of a company's value chain?

Answer: The AIS can be designed to allow customers direct access to a company's inventory and sales order entry systems. This allows the customer to do more of the work that traditionally has been done by sales, marketing, and administration personnel. This allows for faster ordering, and cuts the company's labor costs. It may also have the effect of allowing the customer more control in a purchase transaction that may bring more satisfaction and value to the customer.

Objective: Learning Objective 8

Difficulty: Moderate

AACSB: Analytic

14) Discuss the components of a supply chain.

Answer: The supply chain shows how an organization interacts with suppliers, distributors, and customers to provide value in the products it sells. The supply chain depicts the creation and sale of a product—the chain is somewhat different when a service is involved. The supply chain has five components: raw materials; manufacturer; distributor; retailer; and the consumer. Raw materials come from any number of suppliers, which in turn become part of a manufacturing process, which produces a product. The business then provides the product to distributors, who in turn sell the product to retail businesses. The product is ultimately purchased and used by consumers (who may be individuals or businesses). It is important to realize that AIS can greatly impact the traditional supply chain by creating a more efficient and timely environment in which a business can operate. More efficient operations are more effective, which in turn lowers costs, and add greater value and create improved customer satisfaction.

Objective: Learning Objective 8

Difficulty: Easy

AACSB: Analytic