Exam Question Bank

Chapter 2 - Transaction Processing in the AIS

Multiple Choice Questions

1. Accounting is often confused with:

A. Bookkeeping.
b. Finance.
c. Information systems.
d. Tax research.

Answer: A	Difficulty: Easy	Learning objective: 1

2. Which of the following statements is most true?

a. Accounting is the part of bookkeeping devoted to identifying and measuring economic information.
B. Bookkeeping is the part of accounting devoted to identifying and measuring economic information.
c. Bookkeeping is the part of accounting associated with making informed judgments.
d. Accounting is the part of bookkeeping associated with making informed judgments.

Answer: B	Difficulty: Easy	Learning objective: 1

3. The American Accounting Association defined:

a. Neither accounting nor bookkeeping.
b. Both accounting and bookkeeping.
C. Accounting only.
d. Bookkeeping only.

Answer: C	Difficulty: Easy	Learning objective: 1

4. Which of the following steps in the accounting cycle occurs first?

a. Record transactions in the journal.
b. Prepare financial statements.
c. Prepare an unadjusted trial balance.
D. Analyze transactions.

Answer: D	Difficulty: Easy	Learning objective: 2

5. Which of the following steps in the accounting cycle happens only at the end of the year?

a. Prepare financial statements.
B. Close temporary accounts to retained earnings.
c. Record adjusting entries.
d. Prepare a trial balance.

Answer: B	Difficulty: Easy	Learning objective: 2

6. In the accounting cycle, which step immediately comes before analyzing transactions?

a. Prepare financial statements.
b. Close the temporary accounts.
C. Obtain information from source documents.
d. None—analyzing transactions is the first step in the accounting cycle.

Answer: C	Difficulty: Easy	Learning objective: 2

7. Common internal controls associated with source documents include: (i) sequential numbering, (ii) transaction limits, (iii) trial balance.

A. i and ii only.
b. ii and iii only.
c. i and iii only.
d. i, ii, and iii.

Answer: A	Difficulty: Easy	Learning objective: 3

8. Physical security of source documents refers to:

A. Keeping them in a locked cabinet.
b. Numbering them sequentially.
c. Printing each document on a different colored paper.
d. Analyzing them to prepare journal entries.

Answer: A	Difficulty: Easy	Learning objective: 3

9. Which of the following is a form of internal control that ensures the ledger is balanced?

a. Financial statements.
b. Sequentially numbered source documents.
C. Trial balance.
d. Adjusted entries.

Answer: C	Difficulty: Easy	Learning objective: 3

10. Which of the following is not a coding system for a chart of accounts?

A. Alphabetic.
b. Sequential.
c. Block.
d. Mnemonic.

Answer: A	Difficulty: Easy	Learning objective: 4

11. Which type of coding system helps users remember the meaning of the code?

a. Sequential.
b. Hierarchical.
C. Mnemonic.
d. Block.

Answer: C	Difficulty: Easy	Learning objective: 4

12. ___ codes are a more sophisticated form of ___ codes.

a. Block, hierarchical.
b. Block, mnemonic.
c. Mnemonic, sequential.
D. Hierarchical, block.

Answer: D	Difficulty: Easy	Learning objective: 4

13. Human judgment is important in the accounting cycle for:

a. Preparing a trial balance.
B. Recognizing recordable transactions.
c. Filling out source documents.
d. Posting transactions to the ledger.

Answer: B	Difficulty: Easy	Learning objective: 5

14. Which of the following accounting cycle steps is most impacted by information technology?

a. Analyzing transactions.
B. Posting transactions to the ledger.
c. Preparing adjusting entries.
d. Designing a chart of accounts.

Answer: B	Difficulty: Easy	Learning objective: 5

15. Interpreting accounting rules involves:

a. Understanding the accounting cycle.
B. Applying human judgment.
c. Using information technology.
d. Preparing financial statements.

Answer: B	Difficulty: Easy	Learning objective: 5

16. Which of the following is not part of the American Accounting Association's definition of accounting?

a. Distinguishing.
b. Determining.
C. Sharing.
d. Documenting.

Answer: C	Difficulty: Medium	Learning objective: 1

17. One difference between accounting and bookkeeping is:

a. Accounting requires human judgment, while bookkeeping does not.
b. Bookkeeping requires human judgment, but accounting does not.
C. Bookkeeping is more procedural than accounting.
d. Accounting is more procedural than bookkeeping.

Answer: C	Difficulty: Medium	Learning objective: 1

18. As used in the American Accounting Association's definition of accounting, "measuring economic information" refers most directly to:

a. Human judgment.
b. The steps in the accounting cycle.
C. The process of bookkeeping.
d. Making journal entries.

Answer: C	Difficulty: Medium	Learning objective: 1

19. Which of the following best distinguishes adjusting entries from closing entries?

a. Adjusting entries involve only balance sheet accounts; closing entries involve only income statement accounts.
b. Closing entries cannot be journalized using information technology, while adjusting entries can.

C. Adjusting entries happen before preparing financial statements; closing entries occur after preparing financial statements.
d. In adjusting entries, debits must equal credits; in closing entries, debits should be greater than credits.

Answer: C	Difficulty: Medium	Learning objective: 2

20. Which of the following adjusting entry types helps determine the value of fixed assets: (i) depreciation, (ii) prepaid expenses.

a. i only.
b. ii only.
c. Both i and ii.
D. Neither i nor ii.

Answer: D	Difficulty: Medium	Learning objective: 2

21. An organization paid for a six-month insurance policy in November. At the end of December, the organization should make an adjusting entry for:

a. Depreciation.
b. An accrued expense.
C. A prepaid expense.
d. Uncollectible accounts.

Answer: C	Difficulty: Medium	Learning objective: 2

22. Which of the following best explains "transaction limits" as an internal control?

a. Two signatures are required on all checks.
B. A bank teller needs management approval to accept deposits over $500.
c. Purchasing agents cannot complete more than six purchase orders each day.
d. Sales staff must verify a client's credit before making a sale.

Answer: B	Difficulty: Medium	Learning objective: 3

23. As a form of internal control, information technology is most likely to prevent which of the following types of errors?

a. Debiting the wrong account in a journal entry.
b. Crediting the wrong account in a journal entry.
C. Posting "39" instead of "93".
d. Using human judgment inefficiently.

Answer: C	Difficulty: Medium	Learning objective: 3

24. Which of the following forms of internal control eliminates the need for human judgment in the accounting information system: (i) audits, (ii) trial balances, (iii) information technology.

a. i and ii only.
b. ii and iii only.
c. i, ii and iii.
D. Neither i, ii nor iii.

Answer: D	Difficulty: Medium	Learning objective: 3

25. Which of the following describes a difference between sequential coding and block coding?

a. Sequential coding uses letters; block coding uses numbers.
b. Block coding uses letters; sequential coding uses numbers.
c. Sequential coding cannot be used for a chart of accounts, while block coding can.
D. Individual digits and groups of digits have meaning in block coding, but not in sequential coding.

Answer: D	Difficulty: Medium	Learning objective: 4

26. In RKH Corporation's chart of accounts, the account number for cash is "1.1.1," while the account number for "land" is "1.2.1." From that information, we can infer that:

a. RKH uses mnemonic coding in its chart of accounts.
B. The middle digit distinguishes current assets from long-term assets.
c. RKH employs information technology in its accounting information system.
d. No other company utilizes RKH's system for chart of accounts coding.

Answer: B	Difficulty: Medium	Learning objective: 4

27. A "uniform chart of accounts" means:

a. All accounts have the same number.
b. The chart of accounts was developed without human intervention.
C. A company and its subsidiaries use the same chart of accounts.
d. The chart of accounts uses block coding.

Answer: C	Difficulty: Medium	Learning objective: 4

28. Which of the following types of adjusting entries is most likely to involve human judgment?

A. Uncollectible receivables.
b. Prepaid expenses.

c. Deferred revenues.
d. Closing entries.

Answer: A	Difficulty: Medium	Learning objective: 5

29. Human judgment is least important in:

A. Closing entries.
b. Adjusting entries.
c. Designing source documents.
d. Making journal entries.

Answer: A	Difficulty: Medium	Learning objective: 5

30. Information technology can be used in: (i) preparing financial statements, (ii) closing the accounts.

a. i only.
b. ii only.
C. Both i and ii.
d. Neither i nor ii.

Answer: C	Difficulty: Medium	Learning objective: 5

31. Which of the following requires the most human judgment?

A. Accounting.
b. Bookkeeping.
c. Posting.
d. Journalizing.

Answer: A	Difficulty: Medium	Learning objective: 1

32. Which of the following requires the least human judgment?

a. Accounting.
B. Bookkeeping.
c. Making estimates.
d. Preparing financial statements.

Answer: B	Difficulty: Medium	Learning objective: 1

33. Which of the following best demonstrates an "informed judgment" as the term is used in the a. American Accounting Association's definition of accounting?

a. Deciding whether to debit or credit an account.
b. Completing the steps in the accounting cycle.
C. Choosing between borrowing money and issuing capital stock.
d. Listing the elements of financial statements.

Answer: C	Difficulty: Medium	Learning objective: 1

34. A company purchased a three-month insurance policy for $450 on December 1. On December 31, the company should:

a. Debit prepaid insurance and credit insurance expense, $450.
b. Debit insurance expense and credit prepaid insurance, $450.
c. Debit prepaid insurance and credit insurance expense, $150.
D. Debit insurance expense and credit prepaid insurance, $150.

Answer: D	Difficulty: Medium	Learning objective: 2

35. In preparing an adjusting entry for depreciation, an accountant debited depreciation expense and credited accumulated depreciation $500. The adjusting entry means (i) the value of the equipment decreased by $500, (ii) future periods will not benefit from the use of the equipment.

A. Neither i nor ii.
b. Both i and ii.
c. i only.
d. ii only.

Answer: A	Difficulty: Medium	Learning objective: 2

36. RKH Corporation reported a cash balance of $10,000 on its 12/31/2006 balance sheet. We can therefore assume:

a. The company's cash flow from operations was $10,000.
b. The company's cash flow from operations was less than $10,000.
c. The company's cash flow from operations was more than $10,000.
D. Nothing about the company's cash flow from operations.

Answer: D	Difficulty: Medium	Learning objective: 2

37. RKH Corporation requires two signatures on all checks over $1,500. We can therefore assume (i) RKH will never have cash stolen; (ii) checks are sequentially numbered.

a. i only.
b. ii only.
c. Both i and ii.
D. Neither i nor ii.

Answer: D	Difficulty: Medium	Learning objective: 3

38. Which of the following is the best transaction limit for a clerk in a retail store?

a. $100.
b. $500.
c. $1,000.
D. Cannot be determined from the information given.

Answer: D	Difficulty: Medium	Learning objective: 3

39. Which of the following forms of internal control relies most heavily on human judgment?

a. Preparing a trial balance.
B. Enforcing transaction limits.
c. Numbering documents sequentially.
d. Locking a filing cabinet.

Answer: B	Difficulty: Medium	Learning objective: 3

40. Which of the following tasks would most likely involve mnemonic coding?

A. Assigning three-letter codes to inventory items.
b. Developing a chart of accounts.
c. Numbering documents sequentially.
d. Completing the steps in the accounting cycle.

Answer: A	Difficulty: Medium	Learning objective: 4

41. A company's chart of accounts is block coded and contains the following information: Accounts payable (201), Wages payable (204), Interest payable (207). The account number for "accounts receivable" is therefore likely to be:

a. 302.
b. 211.
c. 202.
D. 102.

Answer: D	Difficulty: Medium	Learning objective: 4

42. Which of the following is most likely to employ sequential coding?

a. Amounts on a cash register tape.
b. Chart of accounts.
c. License plate numbers.
D. Street addresses.

Answer: D	Difficulty: Medium	Learning objective: 4

43. RKH Corporation wants to design its chart of accounts to facilitate the use of information technology in its closing entries. Which coding system should RKH use?

a. Mnemonic.
B. Block.
c. Sequential.
d. Random.

Answer: B	Difficulty: Medium	Learning objective: 5

44. RKH Corporation's net income for 2002 was $10,000. In 2003, its income was $15,000. We can therefore assume its 2004 income was:

a. Less than $20,000.
b. Exactly $20,000.
c. More than $20,000.
D. Not determinable from the information given.

Answer: D	Difficulty: Medium	Learning objective: 5

45. Information technology would be least useful for:

A. Designing internal controls.
b. Eliminating human judgment.
c. Calculating depreciation.
d. Auditing.

Answer: A	Difficulty: Medium	Learning objective: 5

46. Which of the following is (are) facts about accounting and bookkeeping: (i) Both involve human judgment. (ii) Both require the use of information technology.

A. i only.
b. ii only.
c. Both i and ii.
d. Neither i nor ii.

Answer: A	Difficulty: Hard	Learning objective: 1

47. A company's adjusting entry for prepaid insurance debited insurance expense for $600. If the policy had a six-month duration, how much did it cost originally?

a. $100.
b. $600.

c. $3,600.
D. Cannot be determined from the information given.

Answer: D	Difficulty: Hard	Learning objective: 2

48. Which of the following would provide the most effective internal control for cash?

a. Numbering checks sequentially.
b. Using a specific amount of daily cash receipts for operating expenses without depositing them in the bank.
c. Reconciling the bank statement twice a year.
D. Keeping cash in a reputable bank.

Answer: D	Difficulty: Hard	Learning objective: 3

49. Company A's chart of accounts contains the following: Cash (101), Accounts receivable (102), inventory (103), equipment (201), accounts payable (301). Company B's chart of accounts shows: Wages payable (112), Taxes payable (113), Retained earnings (114). Which of the following is true?

A. Company A uses block coding; Company B uses sequential coding.
b. Company A uses sequential coding; Company B uses hierarchical coding.
c. Both Company A and Company B use block coding.
d. Both Company A and Company B use sequential coding.

Answer: A	Difficulty: Hard	Learning objective: 4

50. Which of the following is most true when comparing the information in an income statement with the information in a statement of cash flows?

a. Information in the income statement is more useful for decisions.
b. Information in the statement of cash flows is more useful for decisions.
c. The two report the same information in different formats.
D. Both statements report information for a period of time.

Answer: D	Difficulty: Hard	Learning objective: 5

Problems

51. Definition of accounting. Fill in the blanks to complete the American Accounting Association's definition of accounting.

Accounting is the process of ______, ______, and communicating ______ information to permit ______ ______ and decisions by ______ of the ______.

Answer:
Accounting is the process of **identifying, measuring**, and communicating **economic** information to permit **informed judgments** and decisions by **users** of the **information.**

Difficulty: Easy	Learning objective: 1

52. Accounting cycle

The steps in the accounting cycle are listed below in random order. Indicate the correct order in the space provided. If a step does not belong in the accounting cycle, mark it with an "X."

______ Analyze transactions
______ Audit financial statements
______ Close the temporary accounts to retained earnings
______ Design internal controls
______ Exercise human judgment
______ Obtain information about external transactions from source documents
______ Post from the journal to the general ledger accounts
______ Prepare a post-closing trial balance
______ Prepare an adjusted trial balance
______ Prepare an unadjusted trial balance
______ Prepare financial statements
______ Record adjusting entries and post to the general ledger accounts
______ Record the transactions in a journal

Answer:
2 - Analyze transactions
X - Audit financial statements
9 - Close the temporary accounts to retained earnings
X - Design internal controls
X - Exercise human judgment
1 - Obtain information about external transactions from source documents
4 - Post from the journal to the general ledger accounts
10 - Prepare a post-closing trial balance
7 - Prepare an adjusted trial balance
5 - Prepare an unadjusted trial balance
8 - Prepare financial statements
6 - Record adjusting entries and post to the general ledger accounts
3 - Record the transactions in a journal

Difficulty: Easy	Learning objective: 2

53. Accounting cycle

Explain the meaning of each of the following journal entries. The first is provided as an example.

Account debited	Account credited	Explanation
Cash	Sales	Sold goods / services for cash
Inventory	Accounts payable	
Accounts receivable	Cash	
Land	Capital stock	
Interest expense	Interest payable	

Answer:

Account debited	Account credited	Explanation
Cash	Sales	Sold goods / services for cash
Inventory	Accounts payable	*Purchased inventory on account*
Accounts receivable	Cash	*Collected cash from clients*
Land	Capital stock	*Issued capital stock in exchange for land*
Interest expense	Interest payable	*Accrued interest on debt*

Difficulty: Medium	Learning objective: 2

54. Accounting and bookkeeping comparison

Indicate whether each of the following statements applies to: (a) accounting alone, (b) bookkeeping alone, (c) both accounting and bookkeeping or (d) neither accounting nor bookkeeping.

______ Subject to internal controls
______ Requires analysis
______ Primarily involves cyclical activities
______ Involves human judgment
______ Focuses on economic information
______ Defined by American Accounting Association

_____ Concerned with measuring
_____ Can incorporate computers
_____ Can be principles-based
_____ Always involves information technology

Answer:

C - Subject to internal controls
C - Requires analysis
B - Primarily involves cyclical activities
C - Involves human judgment
C - Focuses on economic information
A - Defined by American Accounting Association
C - Concerned with measuring
C - Can incorporate computers
A - Can be principles-based
D - Always involves information technology

Difficulty: Medium	Learning objective: 1

55. Sebastian's Coffee Shop makes and sells specialty coffee drinks, sandwiches and pastries. Several risks associated with the shop's operations are listed below on the left; several internal controls are listed on the right. Match each risk with the internal control most likely to reduce it. Use each internal control only once.

_____ 1. Computer viruses
_____ 2. Damage from flood, fire or earthquake
_____ 3. Incorrect change given to a customer
_____ 4. Incorrectly prepared drinks
_____ 5. Insufficient inventory quantities
_____ 6. Power failure
_____ 7. Robbery
_____ 8. Spoiled food
_____ 9. Theft of cash by employees
_____ 10.Theft of inventory by employees

a. Backup electrical generators
b. Cash registers
c. Insurance
d. Monthly bank reconciliation
e. Placing orders when goods reach a specific level
f. Proper storage conditions
g. Software
h. Video monitoring systems
i. Video surveillance and alarm systems
j. Worker training

Answer:
1 – **G**; 2 – **C**; 3 – **B;** 4 – **J;** 5 – **E;** 6 – **A**; 7 – **I**; 8 **– F**; 9 – **D**; 10 – **H**

Difficulty: Medium	Learning objective: 3

56. Internal controls

Sebastian's Coffee Shop makes and sells specialty coffee drinks, sandwiches and pastries. Sebastian has hired you to construct the shop's first chart of accounts; he wants to use a block coding system. Use the principles of block coding to assign account numbers to the accounts listed below.

Account title	Account number		Account title	Account number
Supplies			Sales	
Equipment			Sales discounts	
Wages payable			Wages expense	
Long-term notes payable			Interest expense	
Retained earnings			Cost of goods sold	

Answer:

Account title	Account number		Account title	Account number
Supplies	*104*		Sales	*601*
Equipment	*202*		Sales discounts	*604*
Wages payable	*301*		Wages expense	*705*
Long-term notes payable	*401*		Interest expense	*801*
Retained earnings	*501*		Cost of goods sold	*703*

Difficulty: Medium	Learning objective: 4

57. Chart of accounts coding

Bumble Beasley attempted to design a hierarchical chart of accounts in the following format: x.y.z. "X" stands for the type of account (1 = asset, 2= liability, etc.), while "Y" indicates whether the account is current (1) or non-current (2). If the current/non-current designation doesn't apply, "Y" is the number "zero." "Z" identifies the specific account. He developed the following account numbers:

Identify the accounts that are correctly coded.

2.1.1	Accounts payable
3.1.1	Capital stock
1.1.1	Cash
3.0.1	Cost of goods sold
4.0.2	Depreciation expense
1.2.2	Equipment
1.1.3	Interest payable
2.1.2	Inventory
3.2.1	Land
2.2.1	Long-term notes payable
3.0.1	Retained earnings
4.1.1	Sales

Answer:
Correctly coded accounts are: **Accounts payable; Cash; Equipment; Long-term notes payable; Retained earnings**

Difficulty: Hard	Learning objective: 4

58. Internal controls analysis

Dewey, Cheatam and Howe is a consulting firm in southern California. The firm employs the internal control procedures listed below as part of its operations. Place an "X" in the appropriate column to indicate whether each item listed is a strength or a weakness for the firm's internal control system.

	Strength	Weakness
Any employee in the firm can sign checks.		
Blank checks are stored in a locked filing cabinet.		
Checks from clients can be made out to the firm or any of the partners individually.		
Office rent is paid automatically and electronically each month.		
One of the partners deposits all credit card receipts and checks in the bank at the end of each month.		
Signature cards, which specify who can sign checks, are re-done only when a new employee is hired.		
The cash receipts clerk reconciles the bank statement.		
The firm accepts credit cards and checks, but not cash.		
The firm maintains a petty cash fund of $1,000.		
Two signatures are required on all checks over $500.		

Answer:

	Strength	Weakness
Any employee in the firm can sign checks.		X
Blank checks are stored in a locked filing cabinet.	X	
Checks from clients can be made out to the firm or any of the partners individually.		X
Office rent is paid automatically and electronically each month.	X	
One of the partners deposits all credit card receipts and checks in the bank at the end of each month.		X
Signature cards, which specify who can sign checks, are re-done only when a new employee is hired.		X
The cash receipts clerk reconciles the bank statement.		X
The firm accepts credit cards and checks, but not cash.		X
The firm maintains a petty cash fund of $1,000.		X
Two signatures are required on all checks over $500.	X	

Difficulty: Hard	Learning objective: 3

59. Internal controls revision

Consider the list of internal control weaknesses listed below. Revise each one to make it stronger.

a. Any employee in a firm can sign checks.
b. Checks from clients can be made out to the firm or any of the partners individually.
c. One of the partners deposits all credit card receipts and checks in the bank at the end of each month.
d. Signature cards, which specify who can sign checks, are re-done only when a new employee is hired.
e. The cash receipts clerk reconciles the bank statement.

Answer:

a. **Any Designated employees in a firm can sign checks.**
b. **Checks from clients can be made out to the firm or any of the partners individually**.
c. **One of the partners deposits all credit card receipts and checks in the bank at the end of each month daily.**
d. **Signature cards, which specify who can sign checks, are re-done only when a new employee is hired when a signer needs to be added or deleted**.
e. **The cash receipts clerk independent accountant reconciles the bank statement**.

Difficulty: Hard	Learning objective: 3

60. Human judgment and information technology

The text explains the importance of human judgment and information technology in the accounting information system. Indicate with an "X" in the appropriate column which of the following tasks rely primarily on human judgment and which rely primarily on information technology.

	Human judgment	Information technology
Calculating payroll amounts		
Choosing a piece of software		
Completing a bank reconciliation		
Designing an internal control system		
Graphing a firm's stock price over time		

Answer:

	Human judgment	Information technology
Calculating payroll amounts		X
Choosing a piece of software	X	
Completing a bank reconciliation		X
Designing an internal control system	X	
Graphing a firm's stock price over time		X

Difficulty: Hard	Learning objective: 5

Short answer questions

The following scenario applies to Questions 61 – 65:

You're "doing the books" for a local consulting firm as part of an internship. The rest of the consultants don't have much background in accounting; they're very curious about the work you do and your college studies.

61. List and discuss two ways human judgment and information technology impact the accounting cycle.

Answer:
Human judgment and information technology impact the accounting cycle in at least two ways. First, accountants must recognize which source documents trigger action and which don't; for example, a sales invoice would trigger a journal entry, but an appraisal of land would not. Second, information technology can make the accounting cycle more efficient; for example, transactions can be posted with the "touch of a button."

Difficulty: Easy	Learning objective: 5

62. Give two specific examples of how accounting is different from bookkeeping. Do not quote or paraphrase from the text.

Answer:
Accounting differs from bookkeeping in at least two ways: (a) Accounting is more complex—it requires a more sophisticated set of skills than simple bookkeeping. (b) And, while information technology can definitely enhance accounting, IT makes a bigger difference in efficiency when it comes to bookkeeping.

Difficulty: Medium	Learning objective: 1

63. Employees in the consulting firm are paid twice a month. They track their own hours and report them via e-mail to you on the 17th for the first half of the month (i.e., on July 17 for the first half of July) and on the 2nd for the second half of the preceding month (i.e., on August 2 for the second half of July). You use Excel to compute each employee's gross pay; you then prepare paychecks using the firm's general ledger software. The senior manager signs the payroll checks and leaves them in each staff member's mailbox. Prepare a list of three internal controls you would recommend for the firm's payroll process.

Answer:
Recommended internal controls include (but are not limited to): (a) delivering paychecks in person, rather than leaving them in the mailboxes, (b) initiating a more efficient system for reporting hours, such as a time clock or software application and (c) maintaining a payroll account separate from the regular operating cash account.

Difficulty: Medium	Learning objective: 3

64. Explain, at a conceptual level, the "accounting cycle." Outline the steps in the cycle for your co-workers; provide a brief explanation of each step.

Answer:
Conceptually, the accounting cycle is the set of activities involved in processing data in the accounting information system. It starts with recognizing recordable events from source documents, culminating in the preparation of the general purpose financial statements. The cycle comprises ten steps:

a. Obtain information about external transactions from source documents.
b. Analyze transactions.
c. Record the transactions in a journal.
d. Post from the journal to the general ledger accounts.
e. Prepare an unadjusted trial balance.
f. Record adjusting entries and post to the general ledger accounts.
g. Prepare an adjusted trial balance.
h. Prepare financial statements.
i. Close the temporary accounts to retained earnings (at year-end only).
j. Prepare a post-closing trial balance (at year-end only).

Difficulty: Hard	Learning objective: 2

65. Use the principles of "block coding" to create a partial chart of accounts for the consulting firm. Include three accounts in each area.

Answer
Account numbers in a block coding system would look like this

a.
Assets
i. *Cash, 101*
ii. *Accounts receivable, 102*
iii. *Plant and equipment, 201*

b.
Liabilities
iv. *Accounts payable, 301*
v. *Wages payable, 305*
vi. *Mortgage payable, 401*

c.
Equity
vii. *Capital stock, 501*
viii. *Additional paid-in capital, 504*
ix. *Retained earnings, 507*

d.
Revenues
x. *Product sales, 601*
xi. *Service sales, 603*
xii. *Warranty sales, 605*

e.

Expenses

xiii. *Cost of goods sold, 701*

xiv. *Wages expense, 703*

xv. *Interest expense, 801*

Difficulty: Hard	Learning objective: 5