

Chapter 02

Transaction Processing in the AIS

Multiple Choice Questions

1. The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information is called:
 - A. Accounting
 - B. Bookkeeping
 - C. Making journal entries
 - D. Preparing financial statements
2. Which of the following phrases most closely relates to bookkeeping?
 - A. Identifying and measuring economic information
 - B. Communicating economic information
 - C. Permitting informed judgments by users
 - D. Permitting informed decisions by users
3. Which of the following most clearly differentiates accounting and bookkeeping?
 - A. Bookkeeping always involves information technology; accounting does not.
 - B. Accounting always involves information technology; bookkeeping does not.
 - C. Bookkeeping is the part of accounting most focused on rules and procedures.
 - D. A college degree is required for bookkeeping, but not for accounting.
4. Which of the following statements about accounting and bookkeeping is most true?
 - A. The FASB Conceptual Framework is relevant in accounting, but not in bookkeeping.
 - B. The FASB Conceptual Framework is relevant in bookkeeping, but not in accounting.
 - C. As an element of the AIS, internal controls are irrelevant to bookkeeping.
 - D. As an element of the AIS, outputs are relevant to accounting.

5. Communicating information to external decision makers is accomplished through ____ as part of the process of ____.
- A. Financial statements, bookkeeping
 - B. Financial statements, accounting
 - C. Journal entries, bookkeeping
 - D. Journal entries, accounting
6. Plant assets, such as equipment, are reported on financial statements at their book value, thus exemplifying:
- A. The measuring process in accounting only.
 - B. The measuring process in bookkeeping only.
 - C. The measuring process in both accounting and bookkeeping.
 - D. Informed judgments as part of the definition of bookkeeping.
7. An accountant received a stack of sales invoices. Which of the following statements is most true?
- A. The stack of sales invoices can help the accountant identify economic information, which is part of both accounting and bookkeeping.
 - B. The accountant is a “user of information” as the phrase is used in the definition of bookkeeping only.
 - C. The accountant is a “user of information” as the phrase is used in the definition of accounting only.
 - D. The stack of sales invoices can help the accountant identify economic information, which is part of bookkeeping, but not accounting.
8. Which of the following best pairs an element of bookkeeping with an example of the element?
- A. Identifying economic information, reading a balance sheet
 - B. Identifying economic information, preparing a balance sheet
 - C. Measuring economic information, reading a balance sheet
 - D. Measuring economic information, preparing a balance sheet

9. The concept of bookkeeping includes: (i) distinguishing relevant from irrelevant information, (ii) calculating amounts to record in the AIS, (iii) reporting financial results.
- A. I and II only.
 - B. I and III only.
 - C. II and III only.
 - D. I, II and III.
10. The definition of accounting has three **principal** elements. Which of the following is not one of them?
- A. Distinguishing relevant from irrelevant information
 - B. Calculating amounts to record in the AIS
 - C. Reporting financial results
 - D. Using the information to make informed judgments
11. Which of the following steps in the accounting cycle occurs first?
- A. Analyze transactions.
 - B. Close the temporary accounts to retained earnings.
 - C. Prepare an unadjusted trial balance.
 - D. Record the transactions in a journal.
12. Which step in the accounting cycle immediately precedes closing the temporary accounts?
- A. Analyze transactions.
 - B. Prepare an adjusted trial balance.
 - C. Prepare financial statements.
 - D. Record adjusting entries.
13. In what way is the fifth step in the accounting cycle different from the seventh step in the accounting cycle?
- A. The fifth step comes before preparing financial statements; the seventh step comes afterward.
 - B. The fifth step focuses only on permanent accounts; the seventh step focuses only on temporary accounts.
 - C. The fifth step focuses only on temporary accounts; the seventh step focuses only on permanent accounts.
 - D. The seventh step includes the results of internal transactions; the fifth step does not.

14. Which of the following is an example of a deferred revenue?

- A. A university receives cash from students prior to the start of classes.
- B. A convenience store sells newspapers to its customers.
- C. Both A and B
- D. Neither A nor B

15. Please refer to the following unadjusted trial balance in answering the below question.

VLN Corporation		
Trial balance		
April 30, 2011		
Cash	\$ 13,700	
Accounts receivable	2,200	
Supplies	300	
Land	32,100	
Accounts payable		\$ 1,900
Deferred revenue		1,700
Capital stock		4,330
Retained earnings		3,770
Sales		38,700
Advertising expense	2,100	
Totals	\$ 50,400	\$ 50,400

1) VLN had unpaid wages totaling \$800 at the end of the accounting period. When VLN's accountant makes an adjusting entry for the unpaid wages, the new trial balance totals will be:

- A. \$49,600
- B. \$51,200
- C. Some other amount
- D. Cannot be determined from the information given

16. Please refer to the following unadjusted trial balance in answering the below question.

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When VLN completes the ninth step in the accounting cycle, all of the following accounts will be involved except:

- A. Advertising expense
- B. Deferred revenue
- C. Retained earnings
- D. Sales

17. Adjusting entries for accrued revenues and accrued expenses are similar in that:

- A. They both involve cash flows after service.
- B. They both involve cash flows before service.
- C. They both debit temporary accounts.
- D. They both credit temporary accounts.

18. Most companies make adjusting entries for depreciation because:
- A. Their plant assets lose market value over time.
 - B. The matching concept must be upheld in financial statements.
 - C. Both A and B.
 - D. Neither A nor B.
19. Which of the following sets includes amounts from a single financial statement?
- A. Cash, sales, interest earned
 - B. Cash, accounts receivable, interest earned
 - C. Cash, accounts receivable, accounts payable
 - D. Sales, accounts receivable, interest earned
20. Which of the following sets includes examples of the same element of financial statements?
- A. Accounts payable, deferred revenue, prepaid wages
 - B. Accounts receivable, deferred revenue, prepaid wages
 - C. Accounts payable, deferred revenue, wages payable
 - D. Deferred revenue, wages payable, prepaid wages
21. Common internal controls associated with source documents include: (i) sequential numbering, (ii) physical security, (iii) equality of debits and credits.
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. I, II and III
22. Requiring ____ on certain source documents is associated with transaction limits as an internal control.
- A. Sequential numbering
 - B. Physical security
 - C. Supervisory approval
 - D. Internal transaction notifications

23. TCP Corporation issues a purchase order whenever it buys inventory. Internal controls associated with the purchase order may include:
- A. Sequential numbering
 - B. Transaction limits
 - C. Both A and B
 - D. Neither A nor B
24. As an internal control measure in the accounting cycle, physical security most clearly applies to:
- A. Source documents
 - B. The balance sheet
 - C. The income statement
 - D. The statement of cash flows
25. Just before preparing financial statements, an inexperienced accountant recorded the use of supplies by debiting supplies expense \$100 and debiting supplies \$100. Which of the following is most true?
- A. The transaction was recorded correctly.
 - B. The unadjusted trial balance will be an effective internal control for detecting any error.
 - C. The adjusted trial balance will be an effective internal control for detecting any error.
 - D. Sequential transaction numbering will be an effective internal control for detecting any error.
26. Linda embezzled cash from her employer by forging a signature on a check. Which of the following internal controls for source documents would most likely prevent such occurrences in the future?
- A. Sequential numbering
 - B. Physical security
 - C. Transaction limits
 - D. Bank reconciliation
27. As an internal control for source documents, sequential numbering is most likely to ____ an error.
- A. Prevent
 - B. Detect
 - C. Correct
 - D. Eliminate

28. As an internal control for source documents, transaction limits are most likely to ____ an error.
- A. Prevent
 - B. Detect
 - C. Correct
 - D. Eliminate
29. As a form of internal control, sequential numbering is most likely to be associated with which step in the accounting cycle?
- A. First
 - B. Fifth
 - C. Sixth
 - D. Last
30. As a form of internal control, transaction limits are most likely to be associated with which step in the accounting cycle?
- A. Second
 - B. Fourth
 - C. Ninth
 - D. Last
31. All of the following are common coding systems used in organizations except:
- A. Block
 - B. Hierarchical
 - C. Random
 - D. Sequential
32. Which type of coding system helps people remember the meaning of the code?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic

33. The accounting department at a local university uses the prefix ACC for all its courses, thus exemplifying which type of coding system?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
34. Courses intended for freshmen at a local university are numbered from 100 to 199, while courses intended for seniors at the same university are numbered from 400 to 499. Which coding system is the university using?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
35. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a column labeled "product code," it most likely uses what kind of coding?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
36. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a field labeled "purchase order number," it most likely uses what kind of coding?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic

37. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. Which of the following statements is most true?
- A. NTR uses sequential coding for its chart of accounts.
 - B. One of the offices should change its account number for cash to promote consistency and efficiency.
 - C. The first set of digits denotes the office.
 - D. The second set of digits denotes the office.
38. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. The account number for accounts receivable in the Los Angeles office is therefore likely to be:
- A. 001.102
 - B. 002.102
 - C. 102.002
 - D. 002.110
39. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the income statement?
- A. 101
 - B. 102
 - C. 401
 - D. 601
40. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the adjusted trial balance but not on the post-closing trial balance?
- A. 203
 - B. 405
 - C. 504
 - D. 701

41. Human judgment is important in which of the following AIS tasks: (i) designing source documents, (ii) recognizing recordable transactions.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
42. Information technology:
- A. Has replaced human judgment in accounting.
 - B. Has cut down on the tedium associated with many steps in the accounting cycle.
 - C. Is an essential element of any AIS.
 - D. Is the defining feature of the AIS.
43. Which of the following statements about human judgment and information technology in the AIS is most true?
- A. Information technology is a substitute for human judgment.
 - B. Human judgment is a substitute for information technology.
 - C. Information technology can enhance human judgment.
 - D. Both information technology and human judgment are essential in any AIS.
44. In an AIS, human judgment is important in:
- A. The second step of the accounting cycle.
 - B. The design and implementation of internal controls.
 - C. Both A and B.
 - D. Neither A nor B.
45. Information technology can be an important tool in which of the five generic elements of an AIS?
- A. Inputs and outputs only
 - B. Outputs and storage only
 - C. Processes and storage only
 - D. Any of the elements

46. Which type of adjusting entry is most likely to involve human judgment?
- A. Uncollectible accounts
 - B. Accrued liabilities
 - C. Deferred revenue
 - D. Prepaid expenses
47. As an internal control, RSR Corporation requires two signatures on all checks over \$500, thus illustrating the importance of:
- A. Human judgment.
 - B. Information technology.
 - C. Both human judgment and information technology.
 - D. Neither human judgment nor information technology.
48. SRE Corporation is a software development company; it uses block coding in its chart of accounts. Which of the following statements is most true?
- A. Information technology may not be necessary to assign new account numbers.
 - B. Human judgment may be involved in assigning new account numbers.
 - C. Both A and B
 - D. Neither A nor B
49. SBL Corporation's accounting records were destroyed in a fire. In reconstructing them:
- A. Human judgment will be important, but information technology will not.
 - B. Information technology will be important, but human judgment will not.
 - C. Both human judgment and information technology may be important.
 - D. Neither human judgment nor information technology will be useful.
50. Both human judgment and information technology are important in accounting information systems. In which of the following pairs of tasks will information technology be more critical than human judgment?
- A. Steps 4 and 9 of the accounting cycle
 - B. Calculating depreciation and creating a new customer order form in Word
 - C. Step 4 of the accounting cycle and calculating depreciation
 - D. Step 9 of the accounting cycle and creating a new customer order form in Word

Essay Questions

51. Which type of account is debited in each of the following adjusting entries? Which type of account is credited?

	Account type debited	Account type credited
accrued revenue		
accrued expense		
deferred revenue		
prepaid expense		
depreciation		

52.

Supply the correct word for each lettered item below to complete the American Accounting Association's definition of accounting. Accounting is the process of (a), (b), and (c) economic information to permit (d) (e) and decisions by (f) of the information.

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

53.

Put the following statements in the correct order based on the steps in the accounting cycle.

- a. Assemble AIS outputs.
- b. Debit cash and credit sales.
- c. Determine the correct way to enter a transaction in the AIS.
- d. Examine a bank statement to determine the amount of a bank service charge.
- e. Make entries that account for timing differences between cash flows and accrual basis revenue and expense.
- f. Prepare the AIS for a new fiscal year.
- g. Reorganize AIS information from chronological to account-based.
- h. Verify, for the first time, the equality of debits and credits in the ledger.
- i. Verify, for the second time, the equality of debits and credits in the ledger.
- j. Verify, for the third time, the equality of debits and credits in the ledger.

54.

Accounting information systems have five generic parts, one of which is internal control. Please give two examples of applicable internal controls for each of the remaining parts of the AIS.

1) Inputs

a. Example 1: _____

b. Example 2: _____

2) Processes

a. Example 1: _____

b. Example 2: _____

3) Outputs

a. Example 1: _____

b. Example 2: _____

4) Storage

a. Example 1: _____

b. Example 2: _____

55 The American Accounting Association's definition of accounting includes the items listed on the right. Which item is most clearly related to the examples on the left? Some elements of the definition may be used more than once; others may not be used at all. Each item on the left has only one best answer.

- | | |
|--|---------------------------------------|
| 1) Calculating straight-line depreciation based on provided information about an asset's cost, salvage value and expected life | |
| 2) Determining the amount of sales tax to add to a customer invoice | |
| 3) Establishing the current market value of short-term investments in securities | |
| 4) Expanding a company's operations to another country | a. Identifying economic activity |
| 5) Filing required annual reports with the SEC | b. Measuring economic activity |
| 6) Investing in a company based on an analysis of its financial statements | c. Communicating economic information |
| 7) Locating the current exchange rate between the US dollar and the Euro | d. Making informed judgments |
| 8) Looking up the amount of tax due | |
| 9) Preparing a presentation of a company's key financial results for its annual shareholders' meeting | |
| 10) Submitting a budget to upper management | |

Matching Questions

56. MNR Corporation uses block coding for its chart of accounts. Selected account titles are listed below on the left in alphabetic order; account numbers for those accounts are listed in random order on the right. Match each account name with the most appropriate number using the principles of block coding.

1. Wages payable	105	_____
2. Treasury stock	204	_____
3. Notes payable	408	_____
4. Inventory	510	_____
5. Equipment	409	_____
6. Discount on bonds payable	203	_____
7. Retained earnings	107	_____
8. Accumulated depreciation--equipment	304	_____
9. Bonds payable	110	_____
10. Prepaid rent	515	_____
11. Accounts receivable	520	_____
12. Capital stock	302	_____

Short Answer Questions

57.

Eric and Gloria were recently hired as entry-level accountants for RSP Corporation. They had the following conversation about their duties and responsibilities.

Eric: I'm really excited to have this job; I've wanted to work in this industry for a couple years now. Gloria: I completed an internship with RSP last year, and I can tell you it's a terrific place to work. Eric: I wonder what kinds of things we'll be doing in our first few months. Gloria: Well, I can tell you some of the things I did during my internship. I helped input data for the corporate tax return in TaxEasy; I also developed initial estimates of bad debts based on an analysis of credit sales. And, I downloaded cost and budget information from the AIS so I could calculate cost variances. Eric: That's quite a diverse group of tasks for an intern! I was hoping to be able to work with RSP's internal audit department at some point; I hear they are the ones in charge of investigating potential fraud in the company. Gloria: Really? How do they know where fraud might exist? Eric: Well, the company has a dedicated phone line employees can call when they suspect fraud may be occurring; the internal auditors listen to those calls, then determine which cases they should investigate. Also, internal auditors analyze spending patterns throughout the company; if they see a sharp increase in spending, they investigate it further.

Required: Analyze Eric and Gloria's conversation for tasks that require human judgment and/or information technology. List five examples of such tasks in the space provided below. For each task, indicate whether it involves human judgment, information technology or both.

58.

The procedures manual for THM Corporation included the following statements:

- a. Accounting department employees are encouraged to obtain a professional certification.
- b. Adjusting entries involving estimates must have those estimates approved by the CFO before they are recorded in the AIS.
- c. All employees accrue sick time at the rate of one hour per month.
- d. All purchase orders must be prepared in triplicate, with the original going to the vendor, the blue copy staying in purchasing and the yellow copy returning to department that initiated the purchase request.
- e. All transactions must be recorded in the journal, then posted to the ledger.
- f. Employees are paid twice a month; journal entries for payroll are recorded two days prior to each pay date.
- g. New account numbers must follow the principles of hierarchical coding; they must be reviewed and approved before becoming part of the AIS.
- h. THM is organized in five major departments: accounting, marketing, human resources, information systems and operations.
- i. THM uses Great Plains Dynamics as its general ledger software. Great Plains will not allow transactions to be recorded unless the equality of debits and credits is maintained.
- j. THM's accounting information system is audited annually by Dewey, Cheatam and Howe, CPAs.

Which **five** statements from the procedures manual most directly explain internal controls related to the accounting cycle?

Essay Questions

59. BLP Company is a consulting firm with offices in Atlanta and San Diego; it provides consulting services in three main areas: finance, marketing and operations. Selected account titles from BLP's accounting information system appear below:

Accounts receivable
Accumulated depreciation--buildings
Advertising expense
Advertising payable
Buildings
Cash
Depreciation expense
Sales
Wages expense
Wages payable

In addition to its overall company financial statements, BLP wants to report selected financial data by geographic location and/or by consulting area. Use the principles of hierarchical coding to assign account numbers to the items listed above to facilitate BLP's financial reporting for marketing consulting in San Diego.

60. Consider the accounting-related tasks below:

Rely more on human judgment

**Rely more on information
technology**

- a) Classify receivables into three pre-determined groups based on due dates
- b) Calculate cost variances based on data extracted from the AIS
- c) Determine which allegations of fraud to investigate based on anonymous hotline tips
- d) Estimate bad debts
- e) Input corporate tax return data
- f) Interpret cost variances
- g) Prepare a graph of spending patterns for the past six months
- h) Reconcile a bank statement

Divide the tasks into two groups of equal size.

Short Answer Questions

61. List the steps in the accounting cycle in their proper order.

62. Explain, in your own words, two similarities and two differences between “accounting” and “bookkeeping.”

63. The text discussed four common coding systems for AIS documents, charts of accounts and other applications. It also discussed a few common internal controls associated with the steps in the accounting cycle. Can the use of block or hierarchical coding in the chart of accounts be considered a form of internal control? Justify your response.

64.

The text discussed common internal controls associated with the steps in the accounting cycle; it also discussed the role of human judgment and information technology in the cycle. Identify and describe:

- a. One way human judgment can improve internal control in the accounting cycle.
- b. One way information technology can improve internal control in the accounting cycle.
- c. One way human judgment can create internal control challenges in the accounting cycle.
- d. One way information technology can create internal control challenges in the accounting cycle.

65. WDN Corporation recently purchased JZN Corporation; the two companies are now trying to merge their separate charts of accounts into a single chart of accounts. Selected block-coded accounts from the two separate accounting information systems appear below:

	WDN	JZN
Cash	101	1101
Inventory	105	1103
Land	206	1209
Accounts payable	301	2101
Deferred revenue	303	2105
Retained earnings	510	3001
Sales	601	4001
Wages expense	707	5008
Supplies expense	713	5011
Interest earned	801	not applicable

Management wants to retain the ability to produce separate financial statements for each company, as well as a combined set of financial statements for the two companies together. Use the principles of hierarchical coding to assign new account numbers to the ten accounts listed above in a way that will achieve management's objectives. Explain how the account numbers illustrate the principles of hierarchical coding and how they help achieve management's objectives.

Chapter 02 Transaction Processing in the AIS **Answer Key**

Multiple Choice Questions

1. The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information is called:

A. Accounting
B. Bookkeeping
C. Making journal entries
D. Preparing financial statements

*BLOOM: Knowledge
Difficulty: Easy
LO 1*

2. Which of the following phrases most closely relates to bookkeeping?

A. Identifying and measuring economic information
B. Communicating economic information
C. Permitting informed judgments by users
D. Permitting informed decisions by users

*BLOOM: Knowledge
Difficulty: Easy
LO 1*

3. Which of the following most clearly differentiates accounting and bookkeeping?

A. Bookkeeping always involves information technology; accounting does not.
B. Accounting always involves information technology; bookkeeping does not.
C. Bookkeeping is the part of accounting most focused on rules and procedures.
D. A college degree is required for bookkeeping, but not for accounting.

*BLOOM: Comprehension
Difficulty: Medium
LO 1*

4. Which of the following statements about accounting and bookkeeping is most true?

- A. The FASB Conceptual Framework is relevant in accounting, but not in bookkeeping.
- B. The FASB Conceptual Framework is relevant in bookkeeping, but not in accounting.
- C. As an element of the AIS, internal controls are irrelevant to bookkeeping.
- D.** As an element of the AIS, outputs are relevant to accounting.

BLOOM: Comprehension
Difficulty: Medium
LO 1

5. Communicating information to external decision makers is accomplished through ____ as part of the process of ____.

- A. Financial statements, bookkeeping
- B.** Financial statements, accounting
- C. Journal entries, bookkeeping
- D. Journal entries, accounting

BLOOM: Application
Difficulty: Medium
LO 1

6. Plant assets, such as equipment, are reported on financial statements at their book value, thus exemplifying:

- A. The measuring process in accounting only.
- B. The measuring process in bookkeeping only.
- C.** The measuring process in both accounting and bookkeeping.
- D. Informed judgments as part of the definition of bookkeeping.

BLOOM: Application
Difficulty: Medium
LO 1

7. An accountant received a stack of sales invoices. Which of the following statements is most true?
- A. The stack of sales invoices can help the accountant identify economic information, which is part of both accounting and bookkeeping.
 - B. The accountant is a “user of information” as the phrase is used in the definition of bookkeeping only.
 - C. The accountant is a “user of information” as the phrase is used in the definition of accounting only.
 - D. The stack of sales invoices can help the accountant identify economic information, which is part of bookkeeping, but not accounting.

BLOOM: Analysis
Difficulty: Hard
LO 1

8. Which of the following best pairs an element of bookkeeping with an example of the element?
- A. Identifying economic information, reading a balance sheet
 - B. Identifying economic information, preparing a balance sheet
 - C. Measuring economic information, reading a balance sheet
 - D. Measuring economic information, preparing a balance sheet

BLOOM: Analysis
Difficulty: Hard
LO 1

9. The concept of bookkeeping includes: (i) distinguishing relevant from irrelevant information, (ii) calculating amounts to record in the AIS, (iii) reporting financial results.
- A. I and II only.
 - B. I and III only.
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Bloom: Synthesis
Difficulty: Hard
LO 1

10. The definition of accounting has three **principal** elements. Which of the following is not one of them?

- A. Distinguishing relevant from irrelevant information
- B. Calculating amounts to record in the AIS
- C. Reporting financial results
- D. Using the information to make informed judgments

Bloom: Synthesis
Difficulty: Hard
LO 1

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

- A. Analyze transactions.
- B. Close the temporary accounts to retained earnings.
- C. Prepare an unadjusted trial balance.
- D. Record the transactions in a journal.

BLOOM: Knowledge
Difficulty: Easy
LO 2

12. Which step in the accounting cycle immediately precedes closing the temporary accounts?

- A. Analyze transactions.
- B. Prepare an adjusted trial balance.
- C. Prepare financial statements.
- D. Record adjusting entries.

BLOOM: Knowledge
Difficulty: Easy
LO 2

13. In what way is the fifth step in the accounting cycle different from the seventh step in the accounting cycle?

- A. The fifth step comes before preparing financial statements; the seventh step comes afterward.
- B. The fifth step focuses only on permanent accounts; the seventh step focuses only on temporary accounts.
- C. The fifth step focuses only on temporary accounts; the seventh step focuses only on permanent accounts.
- D.** The seventh step includes the results of internal transactions; the fifth step does not.

BLOOM: Comprehension
Difficulty: Medium
LO 2

14. Which of the following is an example of a deferred revenue?

- A.** A university receives cash from students prior to the start of classes.
- B. A convenience store sells newspapers to its customers.
- C. Both A and B
- D. Neither A nor B

BLOOM: Comprehension
Difficulty: Medium
LO 2

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- A. \$49,600
- B. \$51,200**
- C. Some other amount
- D. Cannot be determined from the information given

BLOOM: Application
Difficulty: Medium
 LO 2

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Retained earnings		3,770
Sales		38,700
Advertising expense	2,100	
Totals	\$ 50,400	\$ 50,400

When VLN completes the ninth step in the accounting cycle, all of the following accounts will be involved except:

- A. Advertising expense
- B. Deferred revenue**
- C. Retained earnings
- D. Sales

BLOOM: Application
Difficulty: Medium
 LO 2

17. Adjusting entries for accrued revenues and accrued expenses are similar in that:

- A. They both involve cash flows after service.**
- B. They both involve cash flows before service.
- C. They both debit temporary accounts.
- D. They both credit temporary accounts.

BLOOM: Analysis

Difficulty: Hard
LO 2

18. Most companies make adjusting entries for depreciation because:

- A. Their plant assets lose market value over time.
- B.** The matching concept must be upheld in financial statements.
- C. Both A and B.
- D. Neither A nor B.

BLOOM: Analysis
Difficulty: Hard
LO 2

19. Which of the following sets includes amounts from a single financial statement?

- A. Cash, sales, interest earned
- B. Cash, accounts receivable, interest earned
- C.** Cash, accounts receivable, accounts payable
- D. Sales, accounts receivable, interest earned

Bloom: Synthesis
Difficulty: Hard
LO 2

20. Which of the following sets includes examples of the same element of financial statements?

- A. Accounts payable, deferred revenue, prepaid wages
- B. Accounts receivable, deferred revenue, prepaid wages
- C.** Accounts payable, deferred revenue, wages payable
- D. Deferred revenue, wages payable, prepaid wages

Bloom: Synthesis
Difficulty: Hard
LO 2

21. Common internal controls associated with source documents include: (i) sequential numbering, (ii) physical security, (iii) equality of debits and credits.

A. I and II only
B. I and III only
C. II and III only
D. I, II and III

BLOOM: Knowledge
Difficulty: Easy
lo 3

22. Requiring ____ on certain source documents is associated with transaction limits as an internal control.

A. Sequential numbering
B. Physical security
C. Supervisory approval
D. Internal transaction notifications

BLOOM: Knowledge
Difficulty: Easy
lo 3

23. TCP Corporation issues a purchase order whenever it buys inventory. Internal controls associated with the purchase order may include:

A. Sequential numbering
B. Transaction limits
C. Both A and B
D. Neither A nor B

BLOOM: Comprehension
Difficulty: Medium
lo 3

24. As an internal control measure in the accounting cycle, physical security most clearly applies to:

A. Source documents
B. The balance sheet
C. The income statement
D. The statement of cash flows

BLOOM: Comprehension
Difficulty: Medium
lo 3

25. Just before preparing financial statements, an inexperienced accountant recorded the use of supplies by debiting supplies expense \$100 and debiting supplies \$100. Which of the following is most true?

A. The transaction was recorded correctly.
B. The unadjusted trial balance will be an effective internal control for detecting any error.
C. The adjusted trial balance will be an effective internal control for detecting any error.
D. Sequential transaction numbering will be an effective internal control for detecting any error.

BLOOM: Application
Difficulty: Medium
lo 3

26. Linda embezzled cash from her employer by forging a signature on a check. Which of the following internal controls for source documents would most likely prevent such occurrences in the future?

A. Sequential numbering
B. Physical security
C. Transaction limits
D. Bank reconciliation

Difficulty: Medium
lo 3

27. As an internal control for source documents, sequential numbering is most likely to ____ an error.

- A. Prevent
- B. Detect**
- C. Correct
- D. Eliminate

BLOOM: Analysis
Difficulty: Hard
lo 3

28. As an internal control for source documents, transaction limits are most likely to ____ an error.

- A. Prevent**
- B. Detect
- C. Correct
- D. Eliminate

Difficulty: Hard
lo 3

29. As a form of internal control, sequential numbering is most likely to be associated with which step in the accounting cycle?

- A. First**
- B. Fifth
- C. Sixth
- D. Last

Bloom: Synthesis
Difficulty: Hard
lo 3

30. As a form of internal control, transaction limits are most likely to be associated with which step in the accounting cycle?

- A. Second**
- B. Fourth
- C. Ninth
- D. Last

Bloom: Synthesis
Difficulty: Hard

31. All of the following are common coding systems used in organizations except:

- A. Block
- B. Hierarchical
- C. Random**
- D. Sequential

BLOOM: Knowledge
Difficulty: Easy
 LO 4

32. Which type of coding system helps people remember the meaning of the code?

- A. Sequential
- B. Block
- C. Hierarchical
- D. Mnemonic**

BLOOM: Knowledge
Difficulty: Easy
 LO 4

33. The accounting department at a local university uses the prefix ACC for all its courses, thus exemplifying which type of coding system?

- A. Sequential
- B. Block
- C. Hierarchical
- D. Mnemonic**

BLOOM: Comprehension
Difficulty: Medium
 LO 4

34. Courses intended for freshmen at a local university are numbered from 100 to 199, while courses intended for seniors at the same university are numbered from 400 to 499. Which coding system is the university using?

A. Sequential
B. Block
C. Hierarchical
D. Mnemonic

BLOOM: Comprehension
Difficulty: Medium
LO 4

35. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a column labeled "product code," it most likely uses what kind of coding?

A. Sequential
B. Block
C. Hierarchical
D. Mnemonic

BLOOM: Application
Difficulty: Medium
LO 4

36. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a field labeled "purchase order number," it most likely uses what kind of coding?

A. Sequential
B. Block
C. Hierarchical
D. Mnemonic

BLOOM: Application
Difficulty: Medium
LO 4

37. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. Which of the following statements is most true?
- A. NTR uses sequential coding for its chart of accounts.
 - B. One of the offices should change its account number for cash to promote consistency and efficiency.
 - C.** The first set of digits denotes the office.
 - D. The second set of digits denotes the office.

BLOOM: Analysis
Difficulty: Hard
LO 4

38. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. The account number for accounts receivable in the Los Angeles office is therefore likely to be:

- A.** 001.102
- B. 002.102
- C. 102.002
- D. 002.110

BLOOM: Analysis
Difficulty: Hard
LO 4

39. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the income statement?

- A. 101
- B. 102
- C. 401
- D.** 601

Bloom: Synthesis
Difficulty: Hard
LO 4

40. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the adjusted trial balance but not on the post-closing trial balance?

A. 203
B. 405
C. 504
D. 701

Bloom: Synthesis
Difficulty: Hard
LO 4

41. Human judgment is important in which of the following AIS tasks: (i) designing source documents, (ii) recognizing recordable transactions.

A. I only
B. II only
C. Both I and II
D. Neither I nor II

BLOOM: Knowledge
Difficulty: Easy
LO 5

42. Information technology:

A. Has replaced human judgment in accounting.
B. Has cut down on the tedium associated with many steps in the accounting cycle.
C. Is an essential element of any AIS.
D. Is the defining feature of the AIS.

BLOOM: Knowledge
Difficulty: Easy
LO 5

43. Which of the following statements about human judgment and information technology in the AIS is most true?

- A. Information technology is a substitute for human judgment.
- B. Human judgment is a substitute for information technology.
- C.** Information technology can enhance human judgment.
- D. Both information technology and human judgment are essential in any AIS.

BLOOM: Comprehension
Difficulty: Medium
LO 5

44. In an AIS, human judgment is important in:

- A. The second step of the accounting cycle.
- B. The design and implementation of internal controls.
- C.** Both A and B.
- D. Neither A nor B.

BLOOM: Comprehension
Difficulty: Medium
LO 5

45. Information technology can be an important tool in which of the five generic elements of an AIS?

- A. Inputs and outputs only
- B. Outputs and storage only
- C. Processes and storage only
- D.** Any of the elements

BLOOM: Application
Difficulty: Medium
LO 5

46. Which type of adjusting entry is most likely to involve human judgment?

- A.** Uncollectible accounts
- B. Accrued liabilities
- C. Deferred revenue
- D. Prepaid expenses

BLOOM: Application
Difficulty: Medium

47. As an internal control, RSR Corporation requires two signatures on all checks over \$500, thus illustrating the importance of:

A. Human judgment.
B. Information technology.
C. Both human judgment and information technology.
D. Neither human judgment nor information technology.

BLOOM: Analysis
Difficulty: Hard
LO 5

48. SRE Corporation is a software development company; it uses block coding in its chart of accounts. Which of the following statements is most true?

A. Information technology may not be necessary to assign new account numbers.
B. Human judgment may be involved in assigning new account numbers.
C. Both A and B
D. Neither A nor B

BLOOM: Analysis
Difficulty: Hard
LO 5

49. SBL Corporation's accounting records were destroyed in a fire. In reconstructing them:

A. Human judgment will be important, but information technology will not.
B. Information technology will be important, but human judgment will not.
C. Both human judgment and information technology may be important.
D. Neither human judgment nor information technology will be useful.

Bloom: Synthesis
Difficulty: Hard
LO 5

50. Both human judgment and information technology are important in accounting information systems. In which of the following pairs of tasks will information technology be more critical than human judgment?

- A.** Steps 4 and 9 of the accounting cycle
- B. Calculating depreciation and creating a new customer order form in Word
- C. Step 4 of the accounting cycle and calculating depreciation
- D. Step 9 of the accounting cycle and creating a new customer order form in Word

Bloom: Synthesis

Difficulty: Hard

LO 5

Essay Questions

51. Which type of account is debited in each of the following adjusting entries? Which type of account is credited?

	Account type debited	Account type credited
accrued revenue		
accrued expense		
deferred revenue		
prepaid expense		
depreciation		

BLOOM: Knowledge

Difficulty: Easy

LO 2

52.

Supply the correct word for each lettered item below to complete the American Accounting Association's definition of accounting. Accounting is the process of (a), (b), and (c) economic information to permit (d) (e) and decisions by (f) of the information.

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

- a. identifying
- b. measuring
- c. communicating
- d. informed
- e. judgments
- f. users

BLOOM: Knowledge
Difficulty: Easy
LO 1

53.

Put the following statements in the correct order based on the steps in the accounting cycle.

- a. Assemble AIS outputs.
- b. Debit cash and credit sales.
- c. Determine the correct way to enter a transaction in the AIS.
- d. Examine a bank statement to determine the amount of a bank service charge.
- e. Make entries that account for timing differences between cash flows and accrual basis revenue and expense.
- f. Prepare the AIS for a new fiscal year.
- g. Reorganize AIS information from chronological to account-based.
- h. Verify, for the first time, the equality of debits and credits in the ledger.
- i. Verify, for the second time, the equality of debits and credits in the ledger.
- j. Verify, for the third time, the equality of debits and credits in the ledger.

The correct order is listed below, along with the name of the step (which is not required by the problem directions).

- d. Obtain information about external transactions from source documents.
- c. Analyze transactions
- b. Record transactions in the journal.
- g. Post transactions from the journal to the ledger.
- h. Prepare an unadjusted trial balance.
- e. Prepare adjusting entries.
- i. Prepare an adjusted trial balance.
- a. Prepare financial statements.
- f. Close the nominal accounts.
- j. Prepare a post-closing trial balance.

BLOOM: Comprehension
Difficulty: Medium
LO 2

54.

Accounting information systems have five generic parts, one of which is internal control. Please give two examples of applicable internal controls for each of the remaining parts of the AIS.

1) Inputs

a. Example 1: _____

b. Example 2: _____

2) Processes

a. Example 1: _____

b. Example 2: _____

3) Outputs

a. Example 1: _____

b. Example 2: _____

4) Storage

a. Example 1: _____

b. Example 2: _____

- 1) Inputs: sequential numbering, secure storage
- 2) Processes: adequate supervision, equality of debits and credits
- 3) Outputs: audits, data encryption for electronic transmissions
- 4) Storage: password protection, backup files

BLOOM: Comprehension
Difficulty: Medium
lo 3

55. The American Accounting Association's definition of accounting includes the items listed on the right. Which item is most clearly related to the examples on the left? Some elements of the definition may be used more than once; others may not be used at all. Each item on the left has only one best answer.

- | | |
|--|--|
| 1) Calculating straight-line depreciation based on provided information about an asset's cost, salvage value and expected life | |
| 2) Determining the amount of sales tax to add to a customer invoice | |
| 3) Establishing the current market value of short-term investments in securities | |
| 4) Expanding a company's operations to another country | a. Identifying economic information |
| 5) Filing required annual reports with the SEC | b. Measuring economic information |
| 6) Investing in a company based on an analysis of its financial statements | c. Communicating economic information |
| 7) Locating the current exchange rate between the US dollar and the Euro | d. Making informed judgments and decisions |
| 8) Looking up the amount of tax due | |
| 9) Preparing a presentation of a company's key financial results for its annual shareholders' meeting | |
| 10) Submitting a budget to upper management | |

- 1) b
- 2) b
- 3) a
- 4) d
- 5) c
- 6) d
- 7) a
- 8) a
- 9) c
- 10) c

BLOOM: Application
Difficulty: Medium
LO 1

Matching Questions

56. MNR Corporation uses block coding for its chart of accounts. Selected account titles are listed below on the left in alphabetic order; account numbers for those accounts are listed in random order on the right. Match each account name with the most appropriate number using the principles of block coding.

1. Wages payable	105 <u>11</u>
2. Treasury stock	204 <u>8</u>
3. Notes payable	408 <u>9</u>
4. Inventory	510 <u>12</u>
5. Equipment	409 <u>6</u>
6. Discount on bonds payable	203 <u>5</u>
7. Retained earnings	107 <u>4</u>
8. Accumulated depreciation--equipment	304 <u>3</u>
9. Bonds payable	110 <u>10</u>
10. Prepaid rent	515 <u>7</u>
11. Accounts receivable	520 <u>2</u>
12. Capital stock	302 <u>1</u>

BLOOM: Application
Difficulty: Medium
LO 4

Short Answer Questions

57.

Eric and Gloria were recently hired as entry-level accountants for RSP Corporation. They had the following conversation about their duties and responsibilities.

Eric: I'm really excited to have this job; I've wanted to work in this industry for a couple years now. Gloria: I completed an internship with RSP last year, and I can tell you it's a terrific place to work. Eric: I wonder what kinds of things we'll be doing in our first few months. Gloria: Well, I can tell you some of the things I did during my internship. I helped input data for the corporate tax return in TaxEasy; I also developed initial estimates of bad debts based on an analysis of credit sales. And, I downloaded cost and budget information from the AIS so I could calculate cost variances. Eric: That's quite a diverse group of tasks for an intern! I was hoping to be able to work with RSP's internal audit department at some point; I hear they are the ones in charge of investigating potential fraud in the company. Gloria: Really? How do they know where fraud might exist? Eric: Well, the company has a dedicated phone line employees can call when they suspect fraud may be occurring; the internal auditors listen to those calls, then determine which cases they should investigate. Also, internal auditors analyze spending patterns throughout the company; if they see a sharp increase in spending, they investigate it further.

Required: Analyze Eric and Gloria's conversation for tasks that require human judgment and/or information technology. List five examples of such tasks in the space provided below. For each task, indicate whether it involves human judgment, information technology or both.

Tasks that require human judgment: input data for corporate tax return, developed initial estimates of bad debts, work with RSP's internal audit department, investigating potential fraud, determine which cases to investigate, analyze spending patterns

Tasks that require information technology: input data for corporate tax return in TaxEasy, downloaded cost and budget information

BLOOM: Analysis
Difficulty: Hard
LO 5

58.

The procedures manual for THM Corporation included the following statements:

- a. Accounting department employees are encouraged to obtain a professional certification.
- b. Adjusting entries involving estimates must have those estimates approved by the CFO before they are recorded in the AIS.
- c. All employees accrue sick time at the rate of one hour per month.
- d. All purchase orders must be prepared in triplicate, with the original going to the vendor, the blue copy staying in purchasing and the yellow copy returning to department that initiated the purchase request.
- e. All transactions must be recorded in the journal, then posted to the ledger.
- f. Employees are paid twice a month; journal entries for payroll are recorded two days prior to each pay date.
- g. New account numbers must follow the principles of hierarchical coding; they must be reviewed and approved before becoming part of the AIS.
- h. THM is organized in five major departments: accounting, marketing, human resources, information systems and operations.
- i. THM uses Great Plains Dynamics as its general ledger software. Great Plains will not allow transactions to be recorded unless the equality of debits and credits is maintained.
- j. THM's accounting information system is audited annually by Dewey, Cheatam and Howe, CPAs.

Which **five** statements from the procedures manual most directly explain internal controls related to the accounting cycle?

BLOOM: Analysis
Difficulty: Hard
lo 3

Essay Questions

59. BLP Company is a consulting firm with offices in Atlanta and San Diego; it provides consulting services in three main areas: finance, marketing and operations. Selected account titles from BLP's accounting information system appear below:

Accounts receivable
Accumulated depreciation--buildings
Advertising expense
Advertising payable
Buildings
Cash
Depreciation expense
Sales
Wages expense
Wages payable

In addition to its overall company financial statements, BLP wants to report selected financial data by geographic location and/or by consulting area. Use the principles of hierarchical coding to assign account numbers to the items listed above to facilitate BLP's financial reporting for marketing consulting in San Diego.

Bloom: Synthesis
Difficulty: Hard
LO 4

60 Consider the accounting-related tasks below:

	Rely more on human judgment	Rely more on information technology
a) Classify receivables into three pre-determined groups based on due dates		
b) Calculate cost variances based on data extracted from the AIS		
c) Determine which allegations of fraud to investigate based on anonymous hotline tips		
d) Estimate bad debts		
e) Input corporate tax return data		
f) Interpret cost variances		
g) Prepare a graph of spending patterns for the past six months		
h) Reconcile a bank statement		

Divi

de the tasks into two groups of equal size.

Note that the problem calls for two groups of **equal size** (i.e., four items each).

Tasks involving human judgment:

- b. Calculate cost variances (human judgment is required to determine the relevant data)
- c. Determine which allegations of fraud to investigate
- d. Estimate bad debts
- f. Interpret cost variances

Tasks involving information technology:

- a. Classify receivables into three pre-determined groups based on due dates (groups are pre-determined, so no judgment is required)
- e. Input corporate tax return data
- g. Prepare a graph of spending patterns
- h. Reconcile a bank statement

Bloom: Synthesis
Difficulty: Hard
LO 5

Short Answer Questions

61. List the steps in the accounting cycle in their proper order.

1. Obtain information about external transactions from source documents. 2. Analyze transactions. 3. Record the transactions in a journal. 4. Post from the journal to the general ledger accounts. 5. Prepare an unadjusted trial balance. 6. Record adjusting entries and post to the general ledger accounts. 7. Prepare an adjusted trial balance. 8. Prepare financial statements. 9. Close the temporary accounts to retained earnings (at year-end only). 10. Prepare a post-closing trial balance (at year-end only).

BLOOM: Knowledge

Difficulty: Easy

LO 2

62. Explain, in your own words, two similarities and two differences between “accounting” and “bookkeeping.”

Both accounting and bookkeeping focus primarily on financial/economic information. In addition, both require some training to do well. On the other hand, accounting requires more human judgment than does bookkeeping; furthermore, becoming a trained accountant takes considerably longer than becoming a trained bookkeeper.

BLOOM: Comprehension

Difficulty: Medium

LO 1

63. The text discussed four common coding systems for AIS documents, charts of accounts and other applications. It also discussed a few common internal controls associated with the steps in the accounting cycle. Can the use of block or hierarchical coding in the chart of accounts be considered a form of internal control? Justify your response.

Yes, the use of block or hierarchical coding in the chart of accounts can be considered a form of internal control. Internal control's purposes include promoting operating efficiency, which would be facilitated by the use of such a coding system. Doing so may also contribute to financial statement reliability, since the coding system indicates where each account belongs in the financial statements.

BLOOM: Application

Difficulty: Medium

LO 4

lo 3

64.

The text discussed common internal controls associated with the steps in the accounting cycle; it also discussed the role of human judgment and information technology in the cycle. Identify and describe:

- a. One way human judgment can improve internal control in the accounting cycle.
 - b. One way information technology can improve internal control in the accounting cycle.
 - c. One way human judgment can create internal control challenges in the accounting cycle.
 - d. One way information technology can create internal control challenges in the accounting cycle.
-
- a. Human judgment can improve internal control in the accounting cycle by enforcing transaction limits; if a relatively inexperienced employee has a specific transaction limit, assets may be more safe.
 - b. Information technology can improve internal control in the accounting cycle by reducing human error in the process of posting transactions to the ledger.
 - c. Human judgment can create internal control challenges in the accounting cycle as well. For example, a manager may deliberately under- or over-estimate the life of a plant asset, thereby affecting depreciation expense and profits.
 - d. IT can create internal control challenges because of the "invisible" nature of data.

BLOOM: Analysis
Difficulty: Hard
LO 5
lo 3

65. WDN Corporation recently purchased JZN Corporation; the two companies are now trying to merge their separate charts of accounts into a single chart of accounts. Selected block-coded accounts from the two separate accounting information systems appear below:

	WDN	JZN
Cash	101	1101
Inventory	105	1103
Land	206	1209
Accounts payable	301	2101
Deferred revenue	303	2105
Retained earnings	510	3001
Sales	601	4001
Wages expense	707	5008
Supplies expense	713	5011
Interest earned	801	not applicable

Management wants to retain the ability to produce separate financial statements for each company, as well as a combined set of financial statements for the two companies together. Use the principles of hierarchical coding to assign new account numbers to the ten accounts listed above in a way that will achieve management's objectives. Explain how the account numbers illustrate the principles of hierarchical coding and how they help achieve management's objectives.

Bloom: Synthesis
Difficulty: Hard
LO 4