

## ***Chapter 1***

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### ***Significance of Accounting Information Systems and the Accountant's Role***

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#### **MULTIPLE CHOICE QUESTIONS**

1. Which of the following is **not** accounting information?
  - A. Total direct/indirect labor hours
  - B. Delivery equipment cost
  - C. Computer training schedule
  - D. Next year's sales budget

C
2. In what terms can accounting information be expressed?
  - A. Units, percentages, and money
  - B. Money, ratios, and text
  - C. Money, percentages, and text
  - D. Units, percentages, and text

A
3. Which of the following statements does **not** apply to accounting information?
  - A. Accounting information meets the legitimate needs of external users.
  - B. Accounting information is generated by only external activities.
  - C. Accounting information communicates among parties transacting business with one another.
  - D. Accounting information provides a basis for informed management decision making.

B
4. Which of the following groups requires accounting data with the broadest perspective?
  - A. Entry-level managers
  - B. First-level managers
  - C. Middle-level managers
  - D. Upper-level managers

D
5. Which of the following statements is **not** true?
  - A. An accounting system deals primarily with economic events that affect an organization's accounting equation.
  - B. Some accounting events may mature into accounting transactions while others may not.
  - C. Only accounting events that have matured into accounting transactions must be captured and reported by the accounting system.

- D. Most accounting transactions result from an organization's day-to-day operations.
- C
6. From what do accounting transactions result?
- A. Both external and internal activities
  - B. External activities
  - C. Internal activities
  - D. Neither external nor internal activities
- A
7. Which of the following statements about a manual accounting system is **not** correct?
- A. Very little data beyond the basic elements are included.
  - B. Data are stored in only one location.
  - C. Errors and inconsistencies are common.
  - D. Data are processed for external reporting.
- B
8. For decision-making purposes, managers require data from which source(s) and in which terms?
- A. Internal and external sources in only monetary terms
  - B. Internal sources in non-monetary terms and external sources in monetary terms
  - C. Internal sources in non-monetary terms and external sources in monetary terms
  - D. Internal and external sources in both monetary and non-monetary terms
- D
9. Which of the following best describes a manual accounting system?
- A. Slow and prone to error
  - B. Limited in the volume of data it can process
  - C. Fast and accurate
  - D. A and C, but not B
  - E. A and B, but not C
- E
10. What essential functions are performed by computer hardware?
- A. Input, processing, output, and instruction of data
  - B. Input, storage, and instruction of data, and decision making
  - C. Input, processing, storage, and output of data
  - D. Input, storage, and output of data and decision making
- C
11. What are the roles of people in computerized accounting systems?
- A. To monitor the processing of data and to interpret data
  - B. To manufacture hardware, write software, and maintain the accounting system
  - C. To supervise and control the accounting function
  - D. A and B, but not C
  - E. A, B, and C

E

12. Which of the following statements is **not** true?
- A. Trustworthy accounting information and reliable computer equipment can prevent the failure of an organization, even if incompetent and dishonest people carry out the accounting function.
  - B. A good accounting system may not guarantee an organization's success, but a bad one can destroy an organization.
  - C. The difference between good and bad accounting systems lies in the way they are developed, operated, and controlled.
  - D. An accounting system is expected to carry out its tasks without the need for upper management's day-to-day concern.

A

13. Who are the users of accounting systems?
- A. Financial accountants, managerial accountants, and system developers
  - B. Financial accountants, managerial accountants, system developers, and tax accountants
  - C. Financial accountants, managerial accountants, system developers, and governmental accountants
  - D. Financial accountants, managerial accountants, governmental accountants, and tax accountants

D

14. Who is most responsible for operation of the accounting system in an organization?
- A. The controller and the chief executive officer
  - B. The controller and the chief financial officer
  - C. The controller and the board of directors
  - D. A and B, but not C
  - E. B and C, but not A

B

15. Which of the following statements is false?
- A. Internal auditors lack the necessary independence to express opinions about the financial statements of the organizations for which they work.
  - B. Internal auditors ensure that an organization's accounting system is properly designed to meet the organization's present and future needs.
  - C. An external auditor who performs a financial statement audit is not required by professional standards to gain an understanding of the client's accounting information system before expressing an opinion.
  - D. If an external auditor finds the controls over the accounting system to be adequate, he or she may be able to reduce the amount of testing of transactions and account balances necessary to support an opinion on the fairness of the financial statements.

C

16. The Sarbanes-Oxley Act prohibits which of the following?
- A. Consulting firms from forming alliances with software vendors
  - B. Consulting firms from advising on e-business and security issues
  - C. Public accounting firm partners from serving as members of boards of directors
  - D. Public accounting firms from providing consulting services to its auditing clients

D

17. Which of the following certifications is specifically designed for internal auditors?
- A. Certified information systems auditor
  - B. Certified internal auditor
  - C. Certified public accountant
  - D. Certified fraud examiner

B

18. Which of the following organizations can audit a company to determine whether the company has the correct number of licenses for the number of users?
- A. Accenture Consultants
  - B. Business Program Accreditation Association
  - C. Business Software Alliance
  - D. All of these

C

### TRUE/FALSE QUESTIONS

1. With the implementation of e-commerce, many companies have dramatically reduced the number of their suppliers and/or customers.  
T
2. Contemporary accounting information systems include data that could **not** be economically collected before the current level of computerization.  
T
3. The largest volume of accounting information is prepared for external reporting purposes.  
F
4. The content and format of accounting information for external reporting are regulated by internal policies and procedures, while the content and format of accounting information for internal reporting are determined by accounting rule-making bodies.  
F
5. The information used for external reporting and the information supporting management decision making and operations come from the same primary source.  
T
6. Order entry and billing, sales information, financial analysis, and cash management are all included in the definition of an events-based accounting system.

T

7. An auditor who performs a financial statement audit is required by professional standards to gain an understanding of the client's accounting information system before expressing an opinion.

T

8. Auditors do **not** need substantial technical knowledge about accounting systems to be able to carry out their responsibilities.

F

9. The Sarbanes-Oxley Act prohibits public accounting firms from providing consulting services to its auditing clients.

T

10. Accounting information is expressed only in monetary terms.

F

11. An events-based accounting system captures and stores only the data needed for financial reporting.

F

12. One purpose of an accounting information system is to meet an organization's statutory reporting requirements.

T

13. Another purpose of an accounting information system is to provide relevant and accurate accounting information to those who need it and when they need it.

T

14. External transactions arise largely from the accumulation of cost data and the assignment of costs to products, business units, or activities.

F

15. The most common mode of acquiring accounting software systems today is for a company to develop its own systems internally.

F

16. Several professional organizations that provide support to auditors include the American Institute of Certified Public Accountants, the Institute of Internal Auditors, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, The Association of Government Accountants, and the Central Intelligence Agency.

F

17. The “beginning ERP market” includes companies with revenues of \$500 million or more.  
F
18. Under the Sarbanes-Oxley Act of 2002, auditors are prohibited from providing any non-audit services to its clients.  
T
19. The Certified Internal Auditor certification program is sponsored by the Information Systems Audit and Control Association.  
F

### **SHORT ANSWER/ESSAY QUESTIONS**

1. What are the purposes of an accounting information system?

Answer:

To meet an organization’s statutory reporting requirements.

To provide relevant and accurate accounting information to those who need it and when they need it.

To protect the organization from possible risks stemming from abuse of accounting data or of the system itself.

To conduct, or at least enable, most business processes.

2. What are the major components of a computerized accounting system?

Answer:

Hardware, software, and people

3. Describe the importance of an accounting system in an organization.

Answer:

An accounting system touches most or all of an organization’s activities. It touches the organization’s external activities through the transaction documents sent to customers, vendors, and employees, through the financial statements prepared for the stockholders and creditors, and through the tax and regulatory reports sent to government agencies.

The accounting system touches the internal activities through product costing, reflecting the conversion of raw materials into finished products. It also touches internal activities through budgets and budget tracking.

4. Identify the various types of auditors and briefly describe what they do.

Answer:

Auditors are classified into three groups--external, internal, and governmental. External auditors perform a public service by expressing an opinion about the “fairness” of a client’s financial statements. Internal auditors are employed by organizations to perform

auditing for corporate management. Governmental auditors are employed by government agencies to report to government officials and public officials.

5. Below is a list of several certification designations. Another list provides the names of organizations that sponsor the certifications. Record the letter of the correct sponsoring organization beside the certification designation. One organization may sponsor more than one certification.

| Certification Designation                                 | Correct answer |
|---|----------------|
| Certified Information Systems Auditor _____               | a              |
| Certified Management Accountant _____                     | c              |
| Certified Information Systems Security Professional _____ | f              |
| Certified Public Accountant _____                         | d              |
| Certified Fraud Examiner _____                            | b              |
| Certified Information Technology Professional _____       | e              |
| Certified Information Security Manager _____              | a              |
| Certified Internal Auditor _____                          | g              |

#### Sponsoring Organizations

- Information Systems Audit and Control Association
- Association of Certified Fraud Examiners
- Institute of Management Accountants
- American Institute of CPAs and state boards of Public Accountancy
- American Institute of CPAs
- International Information Systems Security Certification Consortium
- Institute of Internal Auditors

6. What are the key components of an accounting information system?

Answer:

The key components of an accounting information system are computer hardware, accounting software, and people.

7. What are four possible categories for accounting software if based on the size of company it services?

Answer:

Four possible categories are low end market, middle market, beginning ERP market, and tier 1 market.

8. What is the difference in an external auditor and an internal auditor?

Answer:

External auditors express an opinion about the “fairness” of a client’s financial statements. They are independent of the client organizations, working individually or for accounting firms. Internal auditors are employed by business firms to perform auditing

work for corporate management. They ensure that accounting systems are properly designed to meet the organization's present and future needs, monitor the effectiveness of internal controls, and provide advice on operational efficiency within the organization.

9. Define the difference between an event and a transaction.

Answer:

An event/business activity may or may not result in a transaction, but a transaction is always an event.