Chapter 1—Introduction to Accounting Information Systems

TRUE/FALSE

1. The three themes of the text are operating systems, e-business, and internal control.

ANS: F

2. In an assurance service the accountant will provide the original information used for decision making.

ANS: F

3. Financial care for the elderly has been identified by the AICPA as a potential assurance service.

ANS: T

4. Mobile and remote computing was identified as one of the ten most important 2008 technological challenges and opportunities facing CPAs.

ANS: T

5. Knowledge of Microsoft Access was identified as one of the ten most important 2008 technological challenges and opportunities facing CPAs.

ANS: F

6. Enterprise systems provide complete integration of an organization's business events and information processing systems.

ANS: T

7. An information system consists of an integrated set of computer-based and manual components established to provide information to users.

ANS: T

8. Internal control is a process that provides complete assurance that the organization is meeting its objectives, such as efficiency and effectiveness of operations and reliable reporting.

ANS: F

9. The Sarbanes-Oxley Act of 2002 has dramatically changed the daily work of financial accountants and auditors.

ANS: T

10. According to the Sarbanes-Oxley Act of 2002, management must identify, document, and evaluate significant internal controls.

ANS: T

11. According to the Sarbanes-Oxley Act of 2002, management must audit and report on auditors' assertions about the organizations' systems of internal controls.

ANS: F

12.   According to the Sarbanes-Oxley Act's Section 409, material changes in the organization's financial condition must be disclosed to the public on a rapid and current basis.

ANS: T

13.   The Sarbanes-Oxley Act's Section 404 creates changes in both how companies document and evaluate internal control and how auditors audit and report on internal control.

ANS: T

14.   Sarbanes-Oxley Section 404 compliance is a major line of business for the biggest accounting firms.

ANS: T

15.   The Sarbanes Oxley Act of 2002 applies to publicly traded companies and not-for-profit entities.

ANS: F

16.   The purpose of an accounting information system is to collect, process, and report financial aspects of business events.

ANS: T

17.   The MIS is a subsystem of the AIS.

ANS: F

18.   Sales/marketing information system is traditionally part of the AIS.

ANS: F

19.   Billing/accounts receivable is traditionally part of the AIS.

ANS: T

20.   Production and personnel are part of the operations process.

ANS: T

21.   The management process includes marketing and sales.

ANS: F

22.   Information that is capable of making a difference in a decision-making situation, by reducing uncertainty or increasing knowledge for that particular decision, has the quality of relevance.

ANS: T

23.   Information about a customer's credit history that is received after the decision to grant additional credit lacks completeness.

ANS: F

24.   The consistency principle is violated when a firm uses straight-line depreciation one year and changes to declining balance depreciation the next year.

ANS: T

25.   Accuracy is the correspondence or agreement between the information and the actual events or objects that the information represents.

ANS: T

26.   Generally, the benefits obtained from improved information are easier to measure than the costs of obtaining those benefits.

ANS: F

27.   The most important information for tactical management involves information about the organization's environment.

ANS: F

28.   How much inventory to reorder is a structured decision.

ANS: T

29.   Strategic management requires more detailed information than operations management.

ANS: F

30.   The three steps in decision making take place in the sequence of (1) intelligence (2) design (3) choice.

ANS: T

31.   Much of the information used by strategic managers comes from outside the organization.

ANS: T

32.   Middle management requires information that is more accurate and timely than strategic management.

ANS: T

33.   Internal control issues are some of the questions the accountant answer in the design of the AIS.

ANS: T

MULTIPLE CHOICE

1.   The three themes of the text book include all of the following except:

| a. | enterprise systems |

b.	risk assessment
c.	e-business
d.	internal control

ANS: B

2. Efficiency and effectiveness of operations are goals of:

a.	enterprise systems
b.	risk assessment
c.	e-business
d.	internal control

ANS: D

3. A set of interdependent elements that together accomplish specific objectives is a

a.	system
b.	subsystem
c.	database
d.	accounting information system

ANS: A

4. A system can be further divided into

a.	input data
b.	subsystems
c.	databases
d.	enterprise systems

ANS: B

5. A system that consists of an integrated set of computer-based and manual components established to collect, store, and manage data and to provide output information to users is a(n)

a.	output
b.	input
c.	database
d.	information system

ANS: D

6. An information system:

a.	is composed of only the computer-based information resources of an organization
b.	may consist of both computer-based and manual components
c.	is different from a data processing system because it uses computers
d.	is not generally used for transaction processing

ANS: B

7. The AICPA has identified all but which of the following as assurance services?

a.	risk assessment
b.	information systems reliability
c.	electronic commerce
d.	consulting

ANS: D

8. The functional model of an information system can be described as

a.	Output, Input, Processing, Users

b.	Input, Processing, Output, Users
c.	Processing, Input, Users, Output
d.	Users, Processing, Input, Output

ANS: B

9. Historically, the relationship between an information system and an accounting information system has been:

a.	the AIS is a part of the IS
b.	the IS is a part of the AIS
c.	the IS and the AIS are one in the same
d.	the IS and AIS are unrelated

ANS: A

10. The text takes the following view of the relationship between an IS and an AIS:

a.	the AIS is part of the IS
b.	the IS is part of the AIS
c.	the IS and the AIS are one in the same
d.	the AIS is the primary system and the IS the subsystem

ANS: C

11. A manmade system that generally consists of an integrated set of computer-based components and manual components established to collect, store, and manage data and to provide output information to users.

a.	information system
b.	output system
c.	business event system
d.	master data system

ANS: A

12. The _____ suggests that technology improves information available for decision making

a.	AICPA
b.	Sarbanes-Oxley Act of 2002
c.	Occupational Outlook Handbook
d.	Accounting Information System

ANS: C

13. A man made system consisting of people, equipment, organization, policies and procedures with the objective of accomplishing the work of the organization.

a.	operations process
b.	management process
c.	information system
d.	strategic planning

ANS: A

14. A man made system consisting of people, authority, organization, policies and procedures with the objective of accomplishing the work of the planning and controlling the operations of the organization.

a.	organization process
b.	management process
c.	information system

d.	strategic planning

ANS: B

15. The three logical components of a business process include all of the following except:

a.	management process
b.	operations process
c.	information process
d.	organization process

ANS: D

16. Which of the following statements is <u>true</u>?

a.	The information process facilitates operations by maintaining inventory and customer data.
b.	The information process provides the means by which management monitors the operations process.
c.	Operations-related processes and accounting-related processes are integrated.
d.	All of the statements are true.

ANS: D

17. Which of the following statements is <u>false</u>?

a.	Management designs the operations and information processes and establishes these processes with people, equipment, and policies.
b.	Information process users include operations personnel, management, and people outside the organization.
c.	Operations related and accounting related processes are designed by those external to the organization.
d.	None of the statements are true.

ANS: C

18. _____ is (are) data presented in a form that is useful to decision makers.

a.	Activities
b.	Information
c.	Objectives
d.	Goals

ANS: B

19. _____ are facts and figures in raw form.

a.	Data
b.	Information
c.	Objectives
d.	Goals

ANS: A

20. All of the following are components of relevance except:

a.	feedback value
b.	predictive value
c.	verifiability
d.	timeliness

ANS: C

21. All of the following are components of reliability except:

a.	validity
b.	accuracy
c.	verifiability
d.	feedback value

ANS: D

22. The minimum threshold for recognition is

a.	relevance
b.	materiality
c.	reliability
d.	decision usefulness

ANS: B

23. Which of the following is an advantage of using cost as a valuation method over fair market value?

a.	objectivity
b.	reliability
c.	verifiability
d.	all of the above

ANS: D

24. ____ improves the decision maker's capacity to predict, confirm, or correct earlier expectations

a.	Understandability
b.	Predictive value and feedback value
c.	Neutrality
d.	Comparability

ANS: B

25. The information quality that enables users to identify similarities and differences in two pieces of information is

a.	understandability
b.	predictive value and feedback value
c.	neutrality
d.	comparability

ANS: D

26. The correspondence or agreement between the information and the actual events or objects that the information represents is known as

a.	accuracy
b.	completeness
c.	neutrality
d.	Comparability

ANS: A

27. The degree to which information includes data about every relevant object or event necessary to make a decision is

a.	Accuracy
b.	Completeness

c.	Neutrality
d.	Comparability

ANS: B

28.   The ability of more than one individual to come to the same measurement is known as

a.	Accuracy
b.	Completeness
c.	Verifiability
d.	Comparability

ANS: C

29.   A primary reason that the FASB requires that GAAP be consistently applied from one period to the next is

a.	Accuracy
b.	Completeness
c.	Neutrality
d.	Comparability

ANS: D

30.   If information arrives too late to impact a decision then there is a problem with

a.	Timeliness
b.	Relevance
c.	Completeness
d.	Neutrality

ANS: A

31.   Which of the following is NOT one of the three steps in decision making as described in the text

a.	action orientation
b.	intelligence
c.	design
d.	choice

ANS: A

32.   Regarding management problem structure and information requirements, which of the following represents the vertical information flows from lowest to highest?

a.	strategic management analysis, tactical management, operations management, operations and business event processing
b.	operations and business event processing, strategic management analysis, tactical manage-ment, operations management
c.	tactical management, operations management, strategic management, operations and business event processing
d.	operations and business event processing, operations management, tactical management, strategic management

ANS: D

33.   Which of the following statements is true?

a.	With a more structured decision, there is a need for less accurate information.
b.	With a more structured decision there is a need for summarized data.
c.	With a more structured decision, there is a need for well defined, more accurate data.
d.	With a less structured decision, there is a need for well defined more accurate data.

ANS: C

34. Which of the following is an unstructured decision?

a.	how much inventory to reorder
b.	how fast an assembly line should operate
c.	when scheduled maintenance should be performed
d.	which research and development projects should be undertaken

ANS: D

35. At which level of the organization are decisions most unstructured?

a.	operations and business event processing level
b.	strategic management level
c.	operations management level
d.	tactical management level

ANS: B

36. ____ requires information to assess the environment and to project future events and conditions.

a.	Strategic management
b.	Tactical management
c.	Operations management
d.	Operations and business event processing

ANS: A

37. ____ requires information that focuses on the day to day management of the business.

a.	Strategic management
b.	Tactical management
c.	Operations management
d.	Operations and business event processing

ANS: C

38. The central repository for all the data related to the enterprise's business activities and resources.

a.	information system
b.	management information system
c.	enterprise database
d.	strategic planning

ANS: C

39. The process of selecting the organization's long term objectives such as product lines and profitability is

a.	strategic planning
b.	tactical planning
c.	operations planning
d.	operations and business event processing

ANS: A

40. Which of the following is NOT part of the strategic planning process?

a.	Who are our customers?
b.	What business are we in?

| c. | Which machinery should we purchase? |
| d. | What is our competitive advantage? |

ANS: C

41. Which of the following statements is <u>false</u>?

a.	Strategic planning is relatively unstructured.
b.	Strategic planning uses much information from outside the firm.
c.	Lower level management must convert strategic plans into plans directed at each operational unit.
d.	One of the goals of strategic planning is for individuals and operational units to work toward their own desired objectives.

ANS: D

42. Generally, which of the following is NOT one of the three roles an accountant can fill in relation to the AIS?

a.	designer
b.	programmer
c.	user
d.	auditor

ANS: B

43. Which of the following questions might the accountant answer in the design of the AIS?

a.	what will be recorded
b.	what controls are necessary
c.	what reports will be produced
d.	all of the above

ANS: D

44. Which of the following is an element of the operations process?

a.	production
b.	planning
c.	controlling
d.	decision making

ANS: A

45. Which of the following is one of the three most prominent management activities?

a.	production
b.	finance
c.	Marketing
d.	Planning

ANS: D

46. Accounting is an activity of the

a.	management process
b.	operations process
c.	information process
d.	organization process

ANS: B

47. Decision-making is an activity of the

a.	management process
b.	operations process
c.	information process
d.	organization process

ANS: A

COMPLETION

1. _____, _____, and
_____ are the three themes of the textbook.

ANS: Enterprise systems, e-business, internal control

2. The _____ Act of 2002 changed the daily work of financial
accountants, auditors, and others.

ANS: Sarbanes-Oxley

3. A _____ is a set of independent elements that together accomplish
specific objectives.

ANS: system

4. The component parts of any system are known as a _____.

ANS: subsystems

5. Software packages that can be used for the core systems necessary to support enterprise
systems are called _____.

ANS: enterprise resource planning (ERP) systems

6. _____ is the application of electronic networks (including the
Internet) to undertake business processes between individuals and organizations.

ANS: E-business

7. _____ is a process—effected by an entity's board of directors,
management, and other personnel— designed to provide reasonable assurance regarding achieving
objectives in the following categories: efficiency and effectiveness of operations, reliability of
reporting, and   compliance with applicable laws and regulations.

ANS: Internal control

8. The _____ units of the Big Four public accounting
firms have accounted for a significant percentage of the firm's business and were growing faster than
the accounting, auditing, and tax portions of their businesses.

ANS: business consulting

9. To provide non-audit _____ services the accountant will be
required to have core competencies that include "interpretation of converging information" (able to
interpret and provide a broader context using financial and nonfinancial information) and "technology
adept" (able to use and leverage technology in ways that add value to clients, customers, and

employers).

ANS: assurance

10.   Three of the five proposed core services of the _____
are assurance and information integrity, management consulting and performance measurement, and
technology services.

ANS: CPA Vision Project

11.   Historically, the accountant has performed a(n) _____ function to
determine the reliability of financial information presented in printed financial statements.

ANS: attest

12.   A(n) _____ system generally consists of both computerized and
manual components that operate to collect, store, and manage data and to provide output information
to users.

ANS: information

13.   A(n) _____ information system is designed to collect, process, and
report information related to financial transactions.

ANS: accounting

14.   To present the results of their endeavors effectively, accountants must possess strong
_____.

ANS: oral and written communication skills

15.   _____ decisions are those for which all three decision phases (intelligence, design,
and choice) are relatively routine or repetitive.

ANS: Structured

16.   A(n) _____ is designed to collect,
process, and report information related to financial transactions.

ANS: accounting information system (AIS)

17.   Input, processing, _____, is a functional model of an information
system.

ANS: output

18.   The highest level of management activity and the one with the broadest scope is
_____ management.

ANS: strategic

19.   In the management hierarchy, the level that lies between strategic management and
operations management is called _____ management.

ANS: tactical

20.   Facts or figures in raw form are referred to as _____.

ANS: data

21.   _____ concerns the most productive, optimal, or economic use of resources.

ANS: Efficiency

22.   _____ is how well the organization actually achieves its goals and objectives.

ANS: Effectiveness

23.   Information that is capable of making a difference in a decision of a user is said to possess the quality of _____.

ANS: relevance

24.   Information that is available before it loses its capacity to influence a user's decision possesses the quality of _____.

ANS: timeliness

25.   Information that improves a decision makers ability to predict, confirm, or correct earlier expectations has the quality known as _____.

ANS:
feedback value or predictive value

26.   The quality of information when there is a high degree of consensus about the information among independent measurers using the same measurement methods is referred to as _____.

ANS: verifiability

27.   Information that is not biased, is said to possess _____.

ANS: neutrality or freedom from bias

28.   The quality of information that enables users to identify similarities and differences in two pieces of information is referred to as _____.

ANS: comparability

29.   GAAP is applied _____ when we can compare financial statements and related information from one period to the next.

ANS: consistently

30.   Section _____ of the Sarbanes-Oxley Act of 2002 requires auditors to audit and report on management's assertions about the organizations' systems of internal control.

ANS: 404

31.   Section _____ of the Sarbanes-Oxley Act of 2002 requires

management to identify, document and evaluate significant internal controls.

ANS: 404

32.   Section _____ of the Sarbanes-Oxley Act of 2002 requires disclosure to the public on a rapid and current basis of material changes in an organization's financial condition.

ANS: 409

ESSAY

1.   Describe each of the following items from the management problem structure:
a. Strategic planning
b. Tactical planning
c. Operations planning

ANS:
Suggested answer:

a.	Strategic planning has a long term time frame and involves such things as what business are we in; who are our customers; what is our competitive advantage; what products should we produce etc.
b.	Tactical planning is performed by mid-level managers to carry out the strategic plans. Data and reports are more summarized than in operational planning. Tactical planning requires a focus on the operational units of the firm but is broader in scope.
c.	Operations' planning involves supervisors using information from business events. The operations management personnel often use an aggregate of data related to several business events such as: shipments per day for the shipping manager, shipments received per day for the receiving manager, etc.

2.   Describe the three roles that an accountant can play in the AIS?

ANS:
The three roles the accountant can play in the AIS are designer, user and auditor.

The accountant is a designer of the AIS who brings knowledge of accounting principles, auditing principles, information systems techniques, and systems development methods.

The accountant is also a user of the AIS and will provide feedback on how well the system works, how easy or difficult it is to use, and on what items can be changed or improved from a user perspective. The accountant performs a number of functions within the organization such as controller, treasurer, financial analyst, all of which are users of the AIS. Accountants, as users of the system can also be effective in the design process because of the functions they perform.

As internal and external auditors, accountants audit the AIS or provide assurance services about internal control or other items discussed in the chapter. Auditors are interested in the reliability of financial information and of the reports produced by the system. They may test the system's controls, assess the system's efficiency and effectiveness, and participate in the system design process. The auditor must possess knowledge of internal controls, systems development, and technology to be effective.

3.   Discuss three of the ten items from the current year's AICPA Top Ten Technology Initiatives.

ANS:

This answer will vary by year. If you (the instructor) want to limit the answers to the Top Ten (2008) list in the textbook, discussion should cover any of the following 10 items as listed in Exhibit 1.1, including:

Information Security Management
IT Governance
Business Continuity Management (BCM) and Disaster Recovery Planning (DRP)
Privacy Management
Business Process Improvement (BPI), Workflow and Process Exception Alerts
Identity and Access Management
Conforming to Assurance and Compliance Standards
Business Intelligence (BI)
Mobile and Remote Computing
Document, Forms, Content, and Knowledge Management