Chapter 2 Overview of Transaction Processing and Enterprise Resource Planning

1 Describe the data processing cycle used to process transactions, including how data is input, stored, and processed and how information is output.

1) Which of the following commonly initiates the data input process?
   A) a business activity
   B) automatic batch processing
   C) an accounting department
   source document
   D) a trial balance query
   Answer: A
   Concept: Transaction processing
   Objective: Learning Objective 1
   Difficulty: Easy
   AACSB: Analytical Thinking

2) A typical source document could be
   A) some type of paper document.
   B) a computer data entry screen.
   C) the company's financial statements.
   D) both A and B
   Answer: D
   Concept: Transaction processing
   Objective: Learning Objective 1
   Difficulty: Easy
   AACSB: Analytical Thinking

3) Which of the following is not considered a source document? A)
   A copy of the company's financial statements.
   B) A copy of the company's shipping document.
   C) A copy of the company's sales journal.
   D) A copy of the company's ledger.
   Answer: A
4) Which step below is not considered to be part of the data processing cycle?
A) data input  
B) feedback from external sources  
C) data storage  
D) data processing  
Answer: B

5) John Pablo works in the accounting department of a multinational manufacturing company. His job includes updating accounts receivable based on sales orders and remittance advices. His responsibilities are part of the company's A) revenue cycle. 
B) expenditure cycle.  
C) financing cycle.  
D) production cycle.  
Answer: A

6) John Pablo works in the accounting department of a multinational manufacturing company. His job includes updating accounts payable based on purchase orders and checks. His responsibilities are part of the company's A) revenue cycle. 
B) expenditure cycle.  
C) financing cycle.  
D) production cycle.  
Answer: B

7) Many small businesses choose to outsource their payroll activities to firms that specialize in providing payroll services. Dolores Yu operates a payroll processing business in Calabasas, California. When she sends bills out to her clients, her work is part of her firm's A) revenue cycle. 
B) expenditure cycle.
C) financing cycle.
D) production cycle.
Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

8) A delivery of inventory from a vendor, with whom a credit line is already established, would be initially recorded in which type of accounting record and as part of what transaction cycle?
A) purchases journal; expenditure cycle
B) general journal; expenditure cycle
C) general ledger; expenditure cycle
D) cash disbursements journal; production cycle Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

9) Making payments to a vendor, with whom a credit line is already established, would be initially recorded in which type of accounting record and as part of what transaction cycle?
A) purchases journal; expenditure cycle
B) general journal; expenditure cycle
C) general ledger; expenditure cycle
D) cash disbursements journal; expenditure cycle
Answer: D

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

10) Describe the basic cycles and business activities for a typical merchandising company.

Answer: Revenue cycle — deliver inventory to customers and collect cash. Expenditure cycle — receive goods and services from vendors and pay cash. Human resources cycle — track hours worked by employees and record withholding data.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

11) Identify the four parts of the transaction processing cycle.
A) data input, data storage, data processing, information output
B) data input, data recall, data processing, information output
C) data input, data recall, data transmission, information output
D) data input, data recall, data transmission, data storage
Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

12) What is the most frequent revenue cycle transaction?
A) purchase of inventory
B) receipt of cash
C) sale to customer
D) billing
Answer: C
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

13) The existence of relevant data guarantees the data are useful.
Answer: FALSE
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

14) Identify the item below that is not one of the four different types of data processing activities. A) creating
B) reading
C) using
D) deleting
Answer: C
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking
15) What is the final step in the data processing cycle?
A) output
B) storage
C) processing
D) input
Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

16) What is the first step in the data processing cycle? A) output
B) storage
C) processing
D) input
Answer: D
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

17) The general ledger
A) summarizes the information on the trial balance.
B) is posted in total to the general journal.
C) only includes balance sheet accounts.
D) summarizes the transactions in journals.
Answer: D
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

18) For a retail business, a delivery of inventory, from a vendor (with whom there is an established credit relationship) would be initially recorded in which type of accounting record as part of which transaction cycle?
A) purchases journal; expenditure cycle
B) general journal; expenditure cycle
C) general ledger; expenditure cycle
D) cash disbursements journal; production cycle
19) Data must be collected about three facets of each business activity. What are they?
A) the business activity, the resources it affects, the people who participate
B) the business activity, the transactions it creates, the impact on the financial statements
C) the inputs, outputs and processes used
D) who is involved, what was sold, how much was paid
Answer: A

20) Issuing a purchase order is part of which transaction cycle?
A) the revenue cycle
B) the expenditure cycle
C) the human resources cycle
D) the production cycle
Answer: B

21) The collection of employee time sheets is part of which transaction cycle?
A) the revenue cycle
B) the production cycle
C) the human resources cycle
D) the expenditure cycle
Answer: C

22) The collection of customer payment is part of which transaction cycle?
A) the revenue cycle
B) the production cycle
C) the human resources cycle
D) the expenditure cycle
Answer: A
23) Common source documents for the revenue cycle include all of the following except A) sales order. B) receiving report. C) delivery ticket. D) credit memo. Answer: B

24) Which of the following documents would be found in the expenditure cycle? A) delivery ticket B) time card C) credit memo D) purchase order Answer: D

25) Documents that are sent to customers or suppliers and then sent back to the company in the course of a business transaction are known as A) turnaround documents. B) source documents. C) input documents. D) transaction documents. Answer: A

26) What is a turnaround document? Provide at least one example of a turnaround document. Answer: Turnaround documents are company output sent to an external party, who often...
adds data to the document, and then are returned to the company as an input document. Students answer may vary based on the examples they provide.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking
27) Which of the following is an example of source data automation?
A) a utility bill
B) POS (point-of-sale) scanners in retail stores
C) a bill of lading
D) a subsidiary ledger
Answer: B

28) Pre-numbering of shipping documents helps to verify that
A) documents have been used in order.
B) company policies were followed.
C) all transactions have been recorded.
D) source data automation was used to capture data.
Answer: C

29) Source documents generally help to improve accuracy in transaction processing because
A) they specify which information to collect.
B) logically related data can be grouped in the same area of the document.
C) they provide directions and steps for completing the form.
D) All of the above are correct.
Answer: D

30) In transaction processing, generally which activity comes first?
A) recording data in a journal
B) posting items to special journals
C) capturing data on source documents
D) recording data in a general ledger
Answer: C
31) Which of the following statements is true?
   A) Batch processing ensures that stored information is always current.
   B) Batch input is more accurate than on-line data entry.
   C) On-line batch processing is a combination of real-time and batch processing.
   D) Batch processing is not frequently used.
   Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

32) The data processing method used by FedEx to track packages is an example of
   A) real-time processing.
   B) batch processing.
   C) online batch processing. D) real-time batch processing.
   Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

33) Street Smarts is a retailer located in Naperville, Illinois. During the peak tourist season, it
    has average daily cash and credit card sales in excess of $10,000. What is the best way for Street
    Smarts to ensure that sales data entry is efficient and accurate?
    A) well-designed paper forms
    B) source data automation
    C) turnaround documents
    D) sequentially numbered sales invoices
    Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

34) In Petaluma, California, electric power is provided to consumers by Pacific Power. Each
    month Pacific Power mails bills to 186,000 households and then processes payments as they are
    received. What is the best way for this business to ensure that payment data entry is efficient and
    accurate?
    A) well-designed paper forms
    B) source data automation
    C) turnaround documents
    D) sequentially numbered bills
    Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
35) Build Smarts is a supplier of building materials to more than 150 builders in the state of Illinois. What is the best way for Build Smarts to ensure that all sales are recorded?
A) well-designed paper forms
B) source data automation
C) turnaround documents
D) sequentially numbered sales invoices
Answer: D

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate

AACSBAACSB: Reflective Thinking

36) Data processing includes all of the following except A) verifying subsidiary ledger balances.
B) changing customer addresses.
C) removing inventory items no longer offered.
D) adding the name of a new vendor.
Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate

AACSBAACSB: Reflective Thinking
37) The Cape Fear Rocket Club heads out to the dunes of Cape Fear, Oregon every August to pierce the sky with their fiery projectiles. An enterprising seller of t-shirts has devised a series of designs that capture the spirit of the event in silk-screened splendor. His employees can be found on many of the major intersections selling his products out of the backs of pickup trucks. What is the best way for this business to ensure that sales data entry is efficient and accurate?
A) well-designed paper forms
B) source data automation
C) turnaround documents
D) sequentially numbered forms Answer: D
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

38) Which of the following statements about data processing methods is true? A) Online real-time processing does not store data in a temporary file. B) Batch processing cannot be used to update a master file. C) Control totals are used to verify accurate processing in both batch and online batch processing. D) Online real-time processing is only possible with source data automation. Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

39) What is the purpose of source documents? What controls are embedded in source documents? Give two examples of source documents.
Answer: The primary purpose of source documents is to record data about business activities. Source documents standardize data collection procedures for an organization and provide better control and accuracy. Source documents are generally pre-numbered, which helps to verify that all transactions have been recorded and there is no missing document; if a document is missing, then which one(s) can be determined. Proper design of source documents ensures which information to collect, preprints standard information such as addresses, and provides directions for completing the form. Examples include: invoices, timecards, sales orders, and purchase orders.
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Reflective Thinking
40) Describe the methods used to collect data about business activities. Describe design and control considerations for each of the data collection methods.

Answer: Data about business activities can be collected with source documents, either on paper or electronic, turnaround documents, and source data automation.

Source documents define what data to collect about an activity, group logically related data close together, provide instructions on how to complete the document, include fields for approvals, and use preprinted standard data. Paper documents should be sequentially prenumbered to allow verification that all documents have been recorded. Electronic source documents should also utilize pull-down menus, drop-down boxes, default values, preformatting, auto sequential numbering, and prompting for complete data entry.

Turnaround documents often begin as output documents that are then sent to external users for further completion. Turnaround documents should utilize most of the same design and control considerations as source documents, but should include data in machine-readable form, such as bar codes or optical character recognition.

Source data automation utilizes technology to capture data in machine-readable form at the time and place the business activity occurs. Source data automation technology includes point-of-sale terminals, bar codes, RFID tags, and electronic data interchange. An especially important control consideration for source data automation is a way to indicate authorization of the activity.

Concept: Transaction processing
Objective: Learning Objective 2
Difficulty: Challenging
AACSB: Reflective Thinking

41) Source data automation refers to
A) using devices to capture transaction data in machine-readable form at the time the transaction is initiated.
B) using the internet as the operating platform of an accounting information system.
C) using an accounting information system to electronically bill customers.
D) using an accounting information system to automate a previously manual transaction process.

Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

42) What is the second step in the data processing cycle?
A) Input.
B) Output.
C) Storage.
D) Processing.

Answer: D
43) A purchase requisition is a common source document used to facilitate which business activity?
A) customer sale
B) receipt of goods
C) inventory purchase
D) purchase request
Answer: D

44) Identify the statement below that is not true with regards to the accounts receivable subsidiary ledger.
A) Every credit sale is entered individually into the subsidiary ledger.
B) Debits and credits in the subsidiary ledger must always equal.
C) The subsidiary ledgers play an important role in maintaining the accuracy of the data stored in the AIS.
D) The total of the subsidiary ledgers must equal the control account. Answer: B

45) Which of the following is not usually a consideration when designing a coding system?
A) government coding regulations
B) standardization
C) future expansion needs
D) ease of reporting
Answer: A
46) Which of the following statements regarding special journals is not true?
A) The balances in a special journal must always reconcile to the general ledger.
B) Special journals are used to record large numbers of repetitive transactions.
C) Special journals are periodically summarized and posted to the general ledger.
D) Special journals provide a specialized format for recording similar transactions. Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

47) A change in an employee's hourly pay would be recorded in
A) the payroll master file.
B) a payroll transaction file.
C) the employee master file.
D) the employee transaction file. Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

48) When the sum of all entries in the subsidiary ledger equals the balance in the corresponding general ledger account, it is assumed that
A) the recording processes were accurate.
B) all source documents were recorded.
C) adjusting entries are not required.
D) no errors exist in the subsidiary ledger.
Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

49) The general ledger account that corresponds to a subsidiary ledger account is known as a(n)
A) dependent account.
B) control account.
C) credit account.
D) attribute account.
Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

50) The type of journal that records large numbers of repetitive transactions such as sales, cash receipts, and cash disbursements is
A) a general journal.
B) a subsidiary journal.
C) a specialized journal.
D) a detailed transaction journal. Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

51) Pre-numbered shipping documents and pre-numbered invoices are examples of
   A) sequence codes.
   B) block codes.
   C) group codes.
   D) mnemonic codes. Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

52) A chart of accounts is an example of (select all that apply)
   A) sequence codes.
   B) block codes.
   C) group codes.
   D) mnemonic codes.
   Answer: B, C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

53) Product items are often coded with (select all that apply)
   A) sequence codes.
   B) block codes.
   C) group codes.
   D) mnemonic codes.
   Answer: C, D

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

54) Product code WSH500D08 is an example of
   A) sequence codes.
   B) block codes.
C) group codes. D) mnemonic codes. Answer: D

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

55) Identify the statement below that is false with regards to effective coding practices. A) Codes should allow for growth.
    B) Codes should be consistent with intended use.
    C) Codes should be customized for each division of an organization.
    D) Codes should be as simple as possible.
    Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

56) All of the following are guidelines for developing a good coding system except A) be consistent with its intended use.
    B) be flexible to allow for growth.
    C) be as sophisticated as possible to promote usage.
    D) be consistent with the company's organization structure.
    Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

57) To be effective, the chart of accounts must
    A) not use alpha-numeric characters.
    B) contain sufficient detail.
    C) utilize only one coding technique.
    D) begin with account 001.
    Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

58) The chart of accounts of a fast-food restaurant would probably include A) a list of vendors.
    B) a list of financial statement accounts.
    C) a list of customers.
    D) a list of employees.
    Answer: B
59) The efficiency of recording numerous business transactions can be best improved by the use of
A) prenumbered source documents.
B) specialized journals.
C) posting references. D) subsidiary ledgers.
Answer: B

60) A general journal
A) would be used to record monthly depreciation entries.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: A

61) The general ledger
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: D

62) A subsidiary ledger
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: C
63) A specialized journal
A) is used to record infrequent or non-routine transactions.
B) simplifies the process of recording large numbers of repetitive transactions.
C) records all detailed data for any general ledger account that has individual sub-accounts.
D) contains summary-level data for every account of the organization.
Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

64) Which statement below is true with regards to an audit trail? A)
A) An audit trail begins with the general journal.
B) An audit trail provides the means to check the accuracy and validity of ledger postings.
C) An audit trail is a summary of recorded transactions.
D) An audit trail is automatically created in every computer-based information system.
Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

65) Which of the following statements about a master file is false? A)
A) A master file is conceptually similar to a ledger in a manual AIS.
B) A master file's individual records are rarely, if ever, changed.
C) A master file exists across fiscal periods.
D) A master file stores cumulative information.
Answer: B

Concept: Transaction processing
Objective: Learning Objective 3
Difficulty: Moderate
AACSB: Reflective Thinking

66) Which of the following is conceptually similar to a journal in a manual AIS? A)
database
B) master file
C) record
D) transaction file
Answer: D

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

67) Catarina Boards is a skateboard retailer located in Pueblo, New Mexico. Catarina Boards is a sole proprietorship that stocks an inventory of between 30 and 50 different skateboards. Inventory is updated in real time by the AIS. If Catarina wishes to keep detailed information about the purchase price of each skateboard in a place outside of the general ledger, it might use
A) relational ledger.
B) transaction file.
C) master file.
D) specific ledger.
Answer: B
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

68) Catarina Boards is a skateboard retailer located in Pueblo, New Mexico. Catarina Boards is a sole proprietorship that stocks an inventory of between 30 and 50 different skateboards. Inventory is updated in real time by the AIS. If Catarina wishes to keep a cumulative information about its company', it might use
A) relational ledger.
B) transaction file.
C) master file.
D) specific ledger.
Answer: C
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

69) Antia Carmie is the largest collector and retailer of Japanese fans in the St. Louis area. Antia uses computer technology to provide superior customer service. The store's database system was designed to make detailed information about each Japanese fan easily accessible to her customers. Accordingly, the fan price and condition are provided for each fan, along with many pictures of each fan. In Antia's database, the price of the Japanese fans is a(n)
A) entity.
B) attribute.
C) field.
D) record.
Answer: B
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking
70) Antia Carmie is the largest collector and retailer of Japanese fans in the St. Louis area. Antia uses computer technology to provide superior customer service. The store's database system was designed to make detailed information about each Japanese fan easily accessible to her customers. Accordingly, the fan price and condition are provided for each fan, along with many pictures of each fan. In Antia's database, the data about each Japanese fan represents a(n)
A) entity.
B) attribute.
C) field.
D) record.
Answer: D
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

71) Antia Carmie is the largest collector and retailer of Japanese fans in the St. Louis area. Antia uses computer technology to provide superior customer service. The store's database system was designed to make detailed information about each Japanese fan easily accessible to her customers. Accordingly, the fan price and condition are provided for each fan, along with many pictures of each fan. In Antia's database, the Japanese fans (as a whole) represent a(n)
A) entity.
B) attribute.
C) field.
D) record.
Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

72) Antia Carmie is the largest collector and retailer of Japanese fans in the St. Louis area. Antia uses computer technology to provide superior customer service. The store's database system was designed to make detailed information about each Japanese fan easily accessible to her customers. Accordingly, the fan price and condition are provided for each fan, along with many pictures of each fan. In Antia's database, the data about each Japanese fan's price is stored in a(n)
A) entity.
B) attribute.
C) field.
D) record.
Answer: C
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking
73) Which of the following statement is true about master file? A) Individual master file records are permanent. B) Individual master file records may change frequently. C) Individual master file records are sometime being referred to as date value. D) Individual master file records are sometime being referred to as entity. Answer: B

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

74) The coding technique most likely used for sales orders is A) block code. B) group code. C) sequence code. D) data code. Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

75) A specialized journal would be most likely to be used to enter A) sales transactions. B) monthly depreciation adjustments. C) annual closing entries. D) stock issuance transactions. Answer: A

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking


Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

77) Which of the following statements is not correct? A) The audit trail is intended to verify the validity and accuracy of transaction recording. B) The audit trail consists of records stored sequentially in an audit file.
C) The audit trail provides the means for locating and examining source documents.
D) The audit trail is created with document numbers and posting references.
Answer: B
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

78) Data about which of the following facets of a business activity is most likely to be recorded in a transaction file?
A) business activity
B) resources affected by the business activity
C) people who participate in the business activity
D) place the business activity occurs
Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

79) Data about all of the following facets of a business activity are most likely to be recorded in a master file except the A) business activity.
B) resources affected by the business activity.
C) people who participate in the business activity.
D) place the business activity occurs.
Answer: A
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Challenging
AACSB: Reflective Thinking

80) When printed on paper, data output is referred to as
A) reports.
B) hard copy.
C) soft copy.
D) financials.
Answer: B
Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

81) When displayed on a monitor, data output is referred to as A) reports.
B) hard copy.
C) soft copy.
D) financials.
Answer: C

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Analytical Thinking

82) Describe an audit trail.
Answer: An audit trail provides a means to check the accuracy and validity of postings to the ledger. The posting references and document numbers help provide the audit trail. An audit trail exists when company transactions can be traced through the AIS from where it originated to where they end up on the financial statements.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

83) Explain how data is organized and stored in an AIS.
Answer: The smallest unit of data is known as a data value. A data value is physically stored in a space called a field. Any number of fields can be grouped together to form a record. Related records are grouped together to form a file. Files are then combined to form a database.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

84) Describe guidelines to follow for a well-designed coding system.
Answer: First, the code should be consistent with its intended use. Second, the code should allow for growth in the number of items to be coded. The coding system should be as simple as possible. The coding system should be consistent with the company's organizational structure and it should be consistent across the different divisions of an organization.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Easy
AACSB: Analytical Thinking

85) Describe the relationship between the general and subsidiary ledgers.
Answer: The general ledger contains summary-level information about every asset, liability, equity, revenue, and expense account in an organization. The balances in general ledger accounts form the starting point for preparation of financial statements and various other financial reports. A subsidiary ledger account provides support for any general ledger account for which individual subaccounts (for example, accounts receivable, accounts payable, inventory, and fixed assets) are required. The subsidiary ledger records and maintains the detail-level information by having a separate record for each customer, vendor, inventory item, or fixed asset. The sum of the subsidiary ledger balances should equal the balance in the general ledger.
account. A general ledger account that corresponds to a subsidiary ledger account is known as a control account.

Concept: Transaction processing
Objective: Learning Objective 1
Difficulty: Moderate
AACSB: Reflective Thinking

2 Discuss how organizations use enterprise resource planning (ERP) systems to process transactions and provide information

1) Which statement below regarding the AIS is false?
   A) The AIS must be able to provide managers with detailed and operational information about the organization's performance.
   B) Both traditional financial measures and operational data are required for proper and complete evaluation of performance.
   C) The AIS was often just one of the information systems used by an organization to collect and process financial and nonfinancial data.
   D) Traditionally, most AIS have been designed so that both financial and operational data are stored in a manner that facilitates their integration in reports.

Answer: D
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Reflective Thinking

2) The quality assurance department at a large manufacturing business enters data into the AIS that is used to produce a weekly report that summarizes the proportion of defective units in each product line. This is an example of A) internal financial information.
   B) internal nonfinancial information.
   C) external financial information.
   D) external nonfinancial information.

Answer: B
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Reflective Thinking

3) Traditionally, accounting information systems have been used to collect, process, store and report non-financial information.

Answer: FALSE
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Easy
AACSB: Analytical Thinking
4) The existence of multiple systems which provide information can result in all of the following except 
A) redundancies.  
B) discrepancies.  
C) integration issues.  
D) efficiency.  
Answer: D  
Concept: Enterprise resource planning (ERP) systems  
Objective: Learning Objective 2  
Difficulty: Challenging  
AACSB: Analytical Thinking

5) A properly configured enterprise resource planning (ERP) system uses a decentralized database to share information across business processes and coordinate activities. Answer: FALSE  
Concept: Enterprise resource planning (ERP) systems  
Objective: Learning Objective 1  
Difficulty: Moderate  
AACSB: Analytical Thinking

6) Which of the following is an example of an ERP system?  
A) Alexis uses a computerized information system to keep track of all the financial data generated by her bakery. She is considering opening a new bakery on the east side of town.  
B) Betty has a system that keeps track of the accounts payable and receivable for her plumbing business. At the end of the year, the system helps her to prepare her taxes in just two hours.  
C) Charlie keeps records of all his business records in a shoe box. Each week he enters all of the data into spreadsheets that automatically generate purchase orders, based on predetermined inventory reorder points. Production quotas for the coming week are also automatically generated based on customer orders.  
D) Doug is a freelance photographer. He keeps records of all expenses and revenues on his cell phone and then e-mails them to himself every month. The files are stored on his personal computer and backed up to CD quarterly.  
Answer: C  
Concept: Enterprise resource planning (ERP) systems  
Objective: Learning Objective 2  
Difficulty: Moderate  
AACSB: Reflective Thinking

7) Which of the following is an example of an ERP system?  
A) Sam uses a computerized information system to keep track of all the financial data generated by her restaurant.
B) Jim has a system that keeps track of the cash receipts and cash disbursements of his mowing business. At the end of each month, the system helps him to prepare a monthly profit and loss statement.

C) Jane is a freelance photographer. She keeps records of all expenses and revenues on her cell phone app and the files are uploaded to the cloud on a regular basis.

D) Claire keeps records of all her business records in an Excel file. Each week she enters all of the data into a system that automatically generates purchase orders, based on predetermined inventory reorder points. Production quotas for the coming week are also automatically generated based on customer orders.

Answer: D

Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Reflective Thinking

8) In an ERP system, the module used to record data about transactions in the revenue cycle is called
A) order to cash.
B) purchase to pay.
C) financial.
D) customer relationship management.

Answer: A

Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Analytical Thinking

9) Implementation of an ERP system requires increased focus on all except which of the following controls?
A) segregation of duties between custody, authorization, and recording
B) data entry controls on validity and accuracy
C) controls over access to data
D) appropriate disposal of hard copy reports

Answer: D

Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Analytical Thinking

10) Implementation of an ERP system requires effective segregation of responsibility for
A) recording, risk assessment, and control procedures.
B) authorization, monitoring, and risk assessment.
C) recording and monitoring of organizational assets.
D) authorization, recording, and custody of organizational assets.

Answer: D
11) Describe four advantages and four disadvantages of implementing an ERP system at a multinational corporation.

**Answer:**

**Advantages**
- Integrating information breaks down barriers between departments and streamlines the flow of information.
- Data input is captured or keyed only once.
- Management gains greater visibility into every area of the enterprise and has improved monitoring capabilities.
- Better access control is established by consolidating multiple permissions and security models into a single data access structure.
- Standardization of procedures and reports across business units.
- Customer service improves as employees can quickly access data. Increased productivity of employees.

**Disadvantages**
- ERP systems are very costly.
- Implementation is time consuming.
- Changes to business processes are sometimes required, in order to minimize the customization needed.
- Complexity of the system.
- Employees may be resistant to implement and use an ERP system and change business processes.

12) ERP stands for
A) enterprise resource planning.
B) enterprise resource program.
C) enterprise reporting program.
D) none of the above

Answer: A

13) In an ERP system, the module used to record data about transactions in the disbursement cycle is called
A) order to cash.
B) purchase to pay.
C) financial.
D) customer relationship management.
Answer: B
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Analytical Thinking

14) In an ERP system, the module used to record data about transactions in the production cycle is called
A) order to cash.
B) purchase to pay.
C) manufacturing.
D) logistics.
Answer: C
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Easy
AACSB: Analytical Thinking

15) In an ERP system, the module used to record marketing data is called
A) marketing.
B) advertising.
C) customer relationship management.
D) customer service.
Answer: C
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Analytical Thinking

16) All of the following are disadvantages of an ERP system except
A) an ERP provides an integrated view of the organization's data.
B) ERP software and hardware can cost midsized companies between $10 million and $20 million dollars.
C) ERPs frequently cause organizations to change their business processes to standardized ones.
D) ERPs are relatively complex.
Answer: A
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 5
Difficulty: Moderate
AACSB: Analytical Thinking

17) All of the following are advantages of an ERP system except
A) in an ERP, data input is captured or keyed once.
B) ERPs permit management to gain greater visibility into every area of the enterprise.
C) it takes considerable experience and training to use an ERP system effectively.
D) ERPs permit manufacturing plants to receive new orders in real time.
Answer: C
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Analytical Thinking

18) All of the following are reasons that implementing a new ERP may fail except A) employees may resist using the ERP system.
B) ERPs can take years to fully implement.
C) employees may refuse to share sensitive information with different departments.
D) ERPs may require procedures and reports to be standardized across business units. Answer: D
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Challenging
AACSB: Analytical Thinking

19) It is relatively easy to train employees to learn how to use an ERP system.
Answer: FALSE
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Easy
AACSB: Analytical Thinking

20) All of the following are ERP vendors except
A) Dell.
B) SAP.
C) Oracle.
D) Microsoft.
Answer: A
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Challenging
AACSB: Analytical Thinking

21) One way ERP vendors help to make the configuration process easier for their customers is to
A) encourage their customers to use decentralized databases.
B) train their customers to use an existing system and build interfaces between it and their ERP system.
C) develop built-in configuration tools to address most of their customers' needs for system changes. D) All of the above.
Answer: C
Concept: Enterprise resource planning (ERP) systems
22) An ERP system might facilitate the purchase of direct materials by all of the following except
A) selecting the best supplier by comparing bids.
B) preparing a purchase order when inventory falls to reorder point.
C) routing a purchase order to a purchasing agent for approval.
D) communicating a purchase order to a supplier.
Answer: A
Concept: Enterprise resource planning (ERP) systems
Objective: Learning Objective 2
Difficulty: Moderate
AACSB: Reflective Thinking