1. Information is a business resource.

a. True

b. False

2. IT outsourcing is location-independent computing.

a. True

b. False

3. Transaction processing systems convert non-financial transactions into financial transactions.

a. True

b. False

4. Information lacking reliability may still have value.

a. True

b. False

5. A balance sheet prepared in conformity with GAAP is an example of discretionary reporting.

a. True

b. False

6. The management reporting system provides the internal financial information needed to manage a business.

a. True

b. False

7. Most of the inputs to the general ledger system come from the financial reporting system.

a. True

b. False

8. When preparing discretionary reports, organizations can choose what information to report and how to present it.

a. True

b. False

9. Retrieval is the task of permanently removing obsolete or redundant records from the database.

a. True

b. False

10. Systems development represents 80 to 90 percent of the total cost of a computer system.

a. True

b. False

11. The database administrator is responsible for the security and integrity of the database.

a. True

b. False

12. Custom software is developed and maintained by enterprise resource planners.

a. True

b. False

13. The internal auditor represents the interests of third-party outsiders.

a. True

b. False

14. Information technology (IT) audits can be performed by both internal and external auditors.

a. True

b. False

15. Custom software is the most affordable systems development option.

a. True

b. False

16. A database is a collection of interconnected computers and communications devices that allows users to communicate, access data and applications, and share information and resources.

a. True

b. False

17. Systems maintenance consumes the majority of a system’s total costs.

a. True

b. False

18. Cloud computing is a practice in which the organization sells its IT resources to a third-party outsourcing vendor then leases back IT services from the vendor for a contract period.

a. True

b. False

19. A potential benefit of cloud computing is that the client firm does not need to know where its data are being processed.

a. True

b. False

20. One of the greatest disadvantages of database systems is that all data is always available to all users.

a. True

b. False

21. Under SOX legislation public accounting firms are no longer allowed to provide consulting services to audit clients.

a. True

b. False

22. One member of a company’s audit committee must be an independent CPA.

a. True

b. False

23. Which of the following is not a business resource?

a. raw material

b. labor

c. information

d. all are business resources

24. Which level of management is responsible for short-term planning and coordination of activities necessary to accomplish organizational objectives?

a. operations management

b. middle management

c. top management

d. line management

25. Which level of management is responsible for controlling day-to-day operations?

a. top management

b. middle management

c. operations management

d. executive management

26. Location-independent computing in which shared data centers deliver hosted IT services over the Internet is called

a. IT outsourcing

b. network administration

c. cloud computing

d. custom software

27. The value of information for users is determined by all of the following **except**

a. reliability

b. relevance

c. convenience

d. completeness

28. An example of a nonfinancial transaction is

a. sale of products

b. cash disbursement

c. log of customer calls

d. purchase of inventory

29. An example of a financial transaction is

a. the purchase of computer

b. a supplier’s price list

c. a delivery schedule

d. an employee benefit brochure

30. Which subsystem is **not** part of the accounting information system?

a. transaction processing system

b. expert system

c. general ledger/financial reporting system

d. management reporting system

31. The major difference between the financial reporting system (FRS) and the management reporting system (MRS) is the

a. FRS provides information to internal and external users; the MRS provides information to internal users

b. FRS provides discretionary information; the MRS provides nondiscretionary information

c. FRS reports are prepared using information provided by the general ledger system; the MRS provides information to the general ledger system

d. FRS reports are prepared in flexible, nonstandard formats; the MRS reports are prepared in standardized, formal formats

32. The purpose of the transaction processing system includes all of the following **except**

a. converting economic events into financial transactions

b. recording financial transactions in the accounting records

c. distributing essential information to operations personnel to support their daily operations

d. measuring and reporting the status of financial resources and the changes in those resources

33. The transaction processing system includes all of the following cycles **except**

a. the revenue cycle

b. the administrative cycle

c. the expenditure cycle

d. the conversion cycle

34. The primary input to the transaction processing system is

a. a financial transaction

b. an accounting record

c. an accounting report

d. a nonfinancial transaction

35. When designing the data collection activity, which type of data should be avoided?

a. data that is relevant

b. data that is efficient

c. data that is redundant

d. data that is accurate

36. The most basic element of useful data in the database is the

a. record

b. key

c. file

d. attribute

37. In a database, a complete set of attributes for a single occurrence of an entity class is called a

a. key

b. file

c. record

d. character

38. Effective information has all of the following characteristics **except**

a. relevance

b. completeness

c. summarization

d. structure

39. Database management tasks do **not** include

a. summarization

b. storage

c. retrieval

d. deletion

40. The author distinguishes between the accounting information system and the management information system based on

a. whether the transactions are financial or nonfinancial

b. whether discretionary or nondiscretionary reports are prepared

c. the end users of the reports

d. the organizational structure of the business

41. Which activity is **not** part of the finance function?

a. cash receipts

b. portfolio management

c. credit

d. general ledger

42. Market research and advertising are part of which business function?

a. materials management

b. finance

c. marketing

d. production

43. Which function manages the financial resources of the firm through portfolio management, banking, credit evaluation, and cash receipts and disbursements?

a. accounting

b. finance

c. materials management

d. distribution

44. Which of the following is **not** part of the accounting function?

a. managing the financial information resource of the firm

b. capturing and recording transactions in the database

c. distributing transaction information to operations personnel

d. managing the physical information system of the firm

45. The term “accounting independence” refers to

a. data integrity

b. separation of duties, such as record keeping and custody of physical resources

c. generation of accurate and timely information

d. business segmentation by function

46. In the distributed data processing approach

a. computer services are consolidated and managed as a shared organization resource

b. the computer service function is a cost center

c. the end users are billed using a charge-back system

d. computer services are organized into small information processing units under the control of end users

47. Which of the following is **not**a cloud computing service?

a. software as a service

b. infrastructure as a service

c. network as a service

d. platform as a service

48. The goal of data processing is

a. the verification of the algorithms used

b. to collect only relevant data

c. the production of useful information

d. to develop a hierarchy of outputs

49. Attestation services are performed by

a. external auditors

b. internal accountants

c. internal auditors

d. third-party accountants

50. IT professionals create custom software using

a. distributed data processing

b. turnkey systems

c. enterprise resource planning

d. the system development life cycle

51. The objectives of all information systems include all of the following **except**

a. support for the stewardship function of management

b. evaluating transaction data

c. support for the day-to-day operations of the firm

d. support for management decision making

52. Which individuals may be involved in the systems development life cycle?

a. accountants

b. systems professionals

c. end users

d. all of the above

53. An appraisal function housed within the organization that performs a wide range of services for management is

a. internal auditing

b. data control group

c. external auditing

d. database administration

54. Which of the following is **not** a production support activity?

a. maintenance

b. marketing

c. production planning

d. quality control

55. Advantages of cloud computing include all of the following **except**

a. access to whatever computing power is needed

b. paying only for what is used

c. unknown data processing location

d. flexible, short term contracts

56. Motivations for IT outsourcing include each of the following **except**

a. IT’s highly technical nature

b. long term contracts in IT outsourcing

c. expense of IT

d. dynamically changing nature of IT

57. An internal audit department’s independence is compromised when the department reports to:

a. the company controller

b. the audit committee of the board of directors

c. Both a. and b.

d. Neither a. nor b.

58. What factor conceptually distinguishes external auditing and internal auditing?

a. tests of controls

b. substantive tests

c. education

d. constituencies

59. All of the following are external end users **except**

a. cost accountants

b. creditors

c. stockholders

d. tax authorities

60. Useful information must possess all of the following characteristics **except**

a. relevance

b. precision

c. accuracy

d. completeness

61. The objectives of an information system include each of the following **except**

a. support for the stewardship responsibilities of management

b. furthering the financial interests of shareholders

c. support for management decision making

d. support for the firm’s day-to-day operations

62. Accountants play many roles relating to the accounting information system, including all of the following **except**

a. system users

b. system designers

c. system auditors

d. system converters

63. Entities outside the organization with a direct or indirect interest in the firm, such as stockholders, financial institutions, and government agencies, are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

64. Location-independent sharing of data centers hosting IT servers over the Internet is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

65. Transactions with trading partners include \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

66. A practice in which an organization sells its IT resources and leases them back is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

67. The task of locating and transferring an existing record from the database for processing is called data \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

68. These tests focus on data rather than process: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

69. Three activities that are part of the finance function are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

70. Two distinct ways to structure the data processing function are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

71. Two methods to acquire information systems are to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

72. The most common audit types are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ auditors.

73. Sales of products to customers, purchases of inventory from vendors, and cash disbursements are all examples of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

74. The three major subsystems of the accounting information system are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

75. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ standards that characterize the accounting information system clearly distinguish it from the management information system.

76. The transaction processing system is comprised of three cycles: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

77. The tests that focus on the system itself and how it is designed to reduce risk is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

78. Sarbanes-Oxley legislation requires that management designs and implements controls over the entire financial reporting process. What systems does this include?

79. Why is it necessary to distinguish between accounting information systems (AIS) and management information systems (MIS)?

80. How has SOX legislation impacted the consulting practices of public accounting firms?

81. What is discretionary reporting?

82. Name the five characteristics of information.

83. Contrast the responsibilities of operations management, middle management, and top management. Explain the different information needs for each level of management.

84. Explain the difference between data and information.

85. Why do auditors need to understand the organizational structure of the business?

86. Several advantages of cloud computing have been discussed. Discuss at least three.

87. Name and explain the purpose of the three major subsystems of the accounting information system (AIS):

|  |  |  |
| --- | --- | --- |
| ​ | ​ | ​ |
| ​ | ​ | ​ |
| ​ | ​ | ​ |

88. What are the three primary functions performed by the transaction processing system?

89. What factors motivate management to outsource IT?

90. Describe the problem of data redundancy.

91. Compare and contrast IT outsourcing and cloud computing.

92. Distinguish between the accounting information system and the management information system.

93. Describe the attest function and its objectives.

94. Why is it important to organizationally separate the accounting function from other functions of the organization?

95. How does SOX affect the provision of attest and advisory services

96. What are the similarities and differences between external auditors and internal auditors?

97. What are fraud audits and why have they become more common?

Answers:

1. a.

2. b.

3. b.

4. b.

5. b.

6. a.

7. b.

8. a.

9. b.

10. b.

11. a.

12. b.

13. b.

14. a.

15. b.

16. b.

17. a.

18. b.

19. b.

20. b.

21. a.

22. b.

23. d.

24. b.

25. c.

26. c.

27. c.

28. c.

29. a.

30. b.

31. a.

32. d.

33. b.

34. a.

35. c.

36. d.

37. c.

38. d.

39. a.

40. a.

41. d.

42. c.

43. b.

44. d.

45. b.

46. d.

47. c.

48. c.

49. a.

50. d.

51. b.

52. d.

53. a.

54. b.

55. c.

56. b.

57. a.

58. d.

59. a.

60. b.

61. b.

62. d.

63. a. stakeholders

64. a. cloud computing

65. a. sales, purchases

66. a. IT outsourcing

67. a. retrieval

68. a. substantive tests

69. a. portfolio management, treasury, credit evaluation, cash disbursements, cash receipts, banking

70. a. centralized, distributed

71. a. develop custom systems, purchase commercial systems

72. a. internal (operational), external (attestation), fraud

73. a. financial transactions

74. a. the transaction processing system (TPS), the general ledger/financial reporting system (GL/FRS), the management reporting system (MRS)

75. a. legal, professional

76. a. revenue, expenditure, conversion

77. a. tests of controls

78. a. This includes the financial reporting system, the general ledger system, and the transaction processing systems that supply the data for financial reporting.

79. a. Because of the highly integrative nature of modern information systems, management and auditors need a conceptual view of the information system that distinguishes key processes and areas of risk and legal responsibility from the other (non-legally b

80. a. Prior to SOX, a gray area of overlap existed between assurance and consulting services. Auditors were once allowed to provide consulting services to their audit clients. They are now prohibited from doing so under SOX legislation.

81. a. Reports used by management that the company is not obligated by law, regulation, or contract to provide. These are often used for internal problem-solving issues rather than by external constituents.

82. a. Relevance, accuracy, completeness, summarization, and timeliness.

83.

84.

85.

86.

87.

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92.

93.

94.

95.

96.

97.