

02

Student: _____

1. The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information is called:
 - A. Accounting
 - B. Bookkeeping
 - C. Making journal entries
 - D. Preparing financial statements
2. Which of the following phrases most closely relates to bookkeeping?
 - A. Identifying and measuring economic information
 - B. Communicating economic information
 - C. Permitting informed judgments by users
 - D. Permitting informed decisions by users
3. Which of the following most clearly differentiates accounting and bookkeeping?
 - A. Bookkeeping always involves information technology; accounting does not.
 - B. Accounting always involves information technology; bookkeeping does not.
 - C. Bookkeeping is the part of accounting most focused on rules and procedures.
 - D. A college degree is required for bookkeeping, but not for accounting.
4. Which of the following statements about accounting and bookkeeping is most true?
 - A. The FASB Conceptual Framework is relevant in accounting, but not in bookkeeping.
 - B. The FASB Conceptual Framework is relevant in bookkeeping, but not in accounting.
 - C. As an element of the AIS, internal controls are irrelevant to bookkeeping.
 - D. As an element of the AIS, outputs are relevant to accounting.
5. Communicating information to external decision makers is accomplished through ____ as part of the process of ____.
 - A. Financial statements, bookkeeping
 - B. Financial statements, accounting
 - C. Journal entries, bookkeeping
 - D. Journal entries, accounting
6. Plant assets, such as equipment, are reported on financial statements at their book value, thus exemplifying:
 - A. The measuring process in accounting only.
 - B. The measuring process in bookkeeping only.
 - C. The measuring process in both accounting and bookkeeping.
 - D. Informed judgments as part of the definition of bookkeeping.
7. An accountant received a stack of sales invoices. Which of the following statements is most true?
 - A The stack of sales invoices can help the accountant identify economic information, which is part of . both accounting and bookkeeping.
 - B. The accountant is a “user of information” as the phrase is used in the definition of bookkeeping only.
 - C. The accountant is a “user of information” as the phrase is used in the definition of accounting only.
 - D The stack of sales invoices can help the accountant identify economic information, which is part of . bookkeeping, but not accounting.
8. Which of the following best pairs an element of bookkeeping with an example of the element?
 - A. Identifying economic information, reading a balance sheet
 - B. Identifying economic information, preparing a balance sheet
 - C. Measuring economic information, reading a balance sheet
 - D. Measuring economic information, preparing a balance sheet

9. The concept of bookkeeping includes: (i) distinguishing relevant from irrelevant information, (ii) calculating amounts to record in the AIS, (iii) reporting financial results.
- A. I and II only.
 - B. I and III only.
 - C. II and III only.
 - D. I, II and III.
10. The definition of accounting has three **principal** elements. Which of the following is not one of them?
- A. Distinguishing relevant from irrelevant information
 - B. Calculating amounts to record in the AIS
 - C. Reporting financial results
 - D. Using the information to make informed judgments
11. Which of the following steps in the accounting cycle occurs first?
- A. Analyze transactions.
 - B. Close the temporary accounts to retained earnings.
 - C. Prepare an unadjusted trial balance.
 - D. Record the transactions in a journal.
12. Which step in the accounting cycle immediately precedes closing the temporary accounts?
- A. Analyze transactions.
 - B. Prepare an adjusted trial balance.
 - C. Prepare financial statements.
 - D. Record adjusting entries.
13. In what way is the fifth step in the accounting cycle different from the seventh step in the accounting cycle?
- A. The fifth step comes before preparing financial statements; the seventh step comes afterward.
 - B. The fifth step focuses only on permanent accounts; the seventh step focuses only on temporary accounts.
 - C. The fifth step focuses only on temporary accounts; the seventh step focuses only on permanent accounts.
 - D. The seventh step includes the results of internal transactions; the fifth step does not.
14. Which of the following is an example of a deferred revenue?
- A. A university receives cash from students prior to the start of classes.
 - B. A convenience store sells newspapers to its customers.
 - C. Both A and B
 - D. Neither A nor B

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

Please refer to the following unadjusted trial balance in answering Questions 15 and 16.

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

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

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

Please refer to the following unadjusted trial balance in answering Questions 15 and 16.

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

- A. Advertising expense
 - B. Deferred revenue
 - C. Retained earnings
 - D. Sales
17. Adjusting entries for accrued revenues and accrued expenses are similar in that:
- A. They both involve cash flows after service.
 - B. They both involve cash flows before service.
 - C. They both debit temporary accounts.
 - D. They both credit temporary accounts.
18. Most companies make adjusting entries for depreciation because:
- A. Their plant assets lose market value over time.
 - B. The matching concept must be upheld in financial statements.
 - C. Both A and B.
 - D. Neither A nor B.
19. Which of the following sets includes amounts from a single financial statement?
- A. Cash, sales, interest earned
 - B. Cash, accounts receivable, interest earned
 - C. Cash, accounts receivable, accounts payable
 - D. Sales, accounts receivable, interest earned
20. Which of the following sets includes examples of the same element of financial statements?
- A. Accounts payable, deferred revenue, prepaid wages
 - B. Accounts receivable, deferred revenue, prepaid wages
 - C. Accounts payable, deferred revenue, wages payable
 - D. Deferred revenue, wages payable, prepaid wages

21. Common internal controls associated with source documents include: (i) sequential numbering, (ii) physical security, (iii) equality of debits and credits.
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. I, II and III
22. Requiring ____ on certain source documents is associated with transaction limits as an internal control.
- A. Sequential numbering
 - B. Physical security
 - C. Supervisory approval
 - D. Internal transaction notifications
23. TCP Corporation issues a purchase order whenever it buys inventory. Internal controls associated with the purchase order may include:
- A. Sequential numbering
 - B. Transaction limits
 - C. Both A and B
 - D. Neither A nor B
24. As an internal control measure in the accounting cycle, physical security most clearly applies to:
- A. Source documents
 - B. The balance sheet
 - C. The income statement
 - D. The statement of cash flows
25. Just before preparing financial statements, an inexperienced accountant recorded the use of supplies by debiting supplies expense \$100 and debiting supplies \$100. Which of the following is most true?
- A. The transaction was recorded correctly.
 - B. The unadjusted trial balance will be an effective internal control for detecting any error.
 - C. The adjusted trial balance will be an effective internal control for detecting any error.
 - D. Sequential transaction numbering will be an effective internal control for detecting any error.
26. Linda embezzled cash from her employer by forging a signature on a check. Which of the following internal controls for source documents would most likely prevent such occurrences in the future?
- A. Sequential numbering
 - B. Physical security
 - C. Transaction limits
 - D. Bank reconciliation
27. As an internal control for source documents, sequential numbering is most likely to ____ an error.
- A. Prevent
 - B. Detect
 - C. Correct
 - D. Eliminate
28. As an internal control for source documents, transaction limits are most likely to ____ an error.
- A. Prevent
 - B. Detect
 - C. Correct
 - D. Eliminate
29. As a form of internal control, sequential numbering is most likely to be associated with which step in the accounting cycle?
- A. First
 - B. Fifth
 - C. Sixth
 - D. Last

30. As a form of internal control, transaction limits are most likely to be associated with which step in the accounting cycle?
- A. Second
 - B. Fourth
 - C. Ninth
 - D. Last
31. All of the following are common coding systems used in organizations except:
- A. Block
 - B. Hierarchical
 - C. Random
 - D. Sequential
32. Which type of coding system helps people remember the meaning of the code?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
33. The accounting department at a local university uses the prefix ACC for all its courses, thus exemplifying which type of coding system?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
34. Courses intended for freshmen at a local university are numbered from 100 to 199, while courses intended for seniors at the same university are numbered from 400 to 499. Which coding system is the university using?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
35. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a column labeled "product code," it most likely uses what kind of coding?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
36. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a field labeled "purchase order number," it most likely uses what kind of coding?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic
37. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. Which of the following statements is most true?
- A. NTR uses sequential coding for its chart of accounts.
 - B. One of the offices should change its account number for cash to promote consistency and efficiency.
 - C. The first set of digits denotes the office.
 - D. The second set of digits denotes the office.

38. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. The account number for accounts receivable in the Los Angeles office is therefore likely to be:
- A. 001.102
 - B. 002.102
 - C. 102.002
 - D. 002.110
39. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the income statement?
- A. 101
 - B. 102
 - C. 401
 - D. 601
40. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the adjusted trial balance but not on the post-closing trial balance?
- A. 203
 - B. 405
 - C. 504
 - D. 701
41. Human judgment is important in which of the following AIS tasks: (i) designing source documents, (ii) recognizing recordable transactions.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
42. Information technology:
- A. Has replaced human judgment in accounting.
 - B. Has cut down on the tedium associated with many steps in the accounting cycle.
 - C. Is an essential element of any AIS.
 - D. Is the defining feature of the AIS.
43. Which of the following statements about human judgment and information technology in the AIS is most true?
- A. Information technology is a substitute for human judgment.
 - B. Human judgment is a substitute for information technology.
 - C. Information technology can enhance human judgment.
 - D. Both information technology and human judgment are essential in any AIS.
44. In an AIS, human judgment is important in:
- A. The second step of the accounting cycle.
 - B. The design and implementation of internal controls.
 - C. Both A and B.
 - D. Neither A nor B.
45. Information technology can be an important tool in which of the five generic elements of an AIS?
- A. Inputs and outputs only
 - B. Outputs and storage only
 - C. Processes and storage only
 - D. Any of the elements

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

51.

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

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

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

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

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

Eric: I'm really excited to have this job; I've wanted to work in this industry for a couple years now.

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

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

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

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

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

60. Divide the tasks into two groups of equal size.

Consider the accounting-related tasks below:

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

61. List the steps in the accounting cycle in their proper order.
62. Explain, in your own words, two similarities and two differences between “accounting” and “bookkeeping.”
63. The text discussed four common coding systems for AIS documents, charts of accounts and other applications. It also discussed a few common internal controls associated with the steps in the accounting cycle. Can the use of block or hierarchical coding in the chart of accounts be considered a form of internal control? Justify your response.

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

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

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

02 Key

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

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

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #1
LO 1*

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

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

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #2
LO 1*

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

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

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #3
LO 1*

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

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

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #4
LO 1*

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

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

*BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #5
LO 1*

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

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

*BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #6
LO 1*

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

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #7
LO 1*

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

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #8
LO 1*

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

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #9
LO 1*

10. The definition of accounting has three **principal** elements. Which of the following is not one of them?
A. Distinguishing relevant from irrelevant information
B. Calculating amounts to record in the AIS
C. Reporting financial results
D. Using the information to make informed judgments

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #10
LO 1*

11. Which of the following steps in the accounting cycle occurs first?
A. Analyze transactions.
B. Close the temporary accounts to retained earnings.
C. Prepare an unadjusted trial balance.
D. Record the transactions in a journal.

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #11
LO 2*

12. Which step in the accounting cycle immediately precedes closing the temporary accounts?
A. Analyze transactions.
B. Prepare an adjusted trial balance.
C. Prepare financial statements.
D. Record adjusting entries.

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #12
LO 2*

13. In what way is the fifth step in the accounting cycle different from the seventh step in the accounting cycle?
- The fifth step comes before preparing financial statements; the seventh step comes afterward.
 - The fifth step focuses only on permanent accounts; the seventh step focuses only on temporary accounts.
 - The fifth step focuses only on temporary accounts; the seventh step focuses only on permanent accounts.
 - D.** The seventh step includes the results of internal transactions; the fifth step does not.

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #13
LO 2*

14. Which of the following is an example of a deferred revenue?
- A.** A university receives cash from students prior to the start of classes.
 - A convenience store sells newspapers to its customers.
 - Both A and B
 - Neither A nor B

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #14
LO 2*

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

Please refer to the following unadjusted trial balance in answering Questions 15 and 16.

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

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

*BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #15
LO 2*

16. When VLN completes the ninth step in the accounting cycle, all of the following accounts will be involved except:
Please refer to the following unadjusted trial balance in answering Questions 15 and 16.

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

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

*BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #16
LO 2*

17. Adjusting entries for accrued revenues and accrued expenses are similar in that:
A. They both involve cash flows after service.
B. They both involve cash flows before service.
C. They both debit temporary accounts.
D. They both credit temporary accounts.

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #17
LO 2*

18. Most companies make adjusting entries for depreciation because:
A. Their plant assets lose market value over time.
B. The matching concept must be upheld in financial statements.
C. Both A and B.
D. Neither A nor B.

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #18
LO 2*

19. Which of the following sets includes amounts from a single financial statement?
- A. Cash, sales, interest earned
 - B. Cash, accounts receivable, interest earned
 - C. Cash, accounts receivable, accounts payable
 - D. Sales, accounts receivable, interest earned

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #19
LO 2*

20. Which of the following sets includes examples of the same element of financial statements?
- A. Accounts payable, deferred revenue, prepaid wages
 - B. Accounts receivable, deferred revenue, prepaid wages
 - C. Accounts payable, deferred revenue, wages payable
 - D. Deferred revenue, wages payable, prepaid wages

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #20
LO 2*

21. Common internal controls associated with source documents include: (i) sequential numbering, (ii) physical security, (iii) equality of debits and credits.
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. I, II and III

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #21
lo 3*

22. Requiring ____ on certain source documents is associated with transaction limits as an internal control.
- A. Sequential numbering
 - B. Physical security
 - C. Supervisory approval
 - D. Internal transaction notifications

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #22
lo 3*

23. TCP Corporation issues a purchase order whenever it buys inventory. Internal controls associated with the purchase order may include:
- A. Sequential numbering
 - B. Transaction limits
 - C. Both A and B
 - D. Neither A nor B

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #23
lo 3*

24. As an internal control measure in the accounting cycle, physical security most clearly applies to:
- A. Source documents
 - B. The balance sheet
 - C. The income statement
 - D. The statement of cash flows

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #24
lo 3*

25. Just before preparing financial statements, an inexperienced accountant recorded the use of supplies by debiting supplies expense \$100 and debiting supplies \$100. Which of the following is most true?
- A. The transaction was recorded correctly.
 - B. The unadjusted trial balance will be an effective internal control for detecting any error.
 - C.** The adjusted trial balance will be an effective internal control for detecting any error.
 - D. Sequential transaction numbering will be an effective internal control for detecting any error.

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #25
lo 3

26. Linda embezzled cash from her employer by forging a signature on a check. Which of the following internal controls for source documents would most likely prevent such occurrences in the future?
- A. Sequential numbering
 - B.** Physical security
 - C. Transaction limits
 - D. Bank reconciliation

Difficulty: Medium
Hurt - Chapter 02 #26
lo 3

27. As an internal control for source documents, sequential numbering is most likely to ____ an error.
- A. Prevent
 - B.** Detect
 - C. Correct
 - D. Eliminate

BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #27
lo 3

28. As an internal control for source documents, transaction limits are most likely to ____ an error.
- A.** Prevent
 - B. Detect
 - C. Correct
 - D. Eliminate

Difficulty: Hard
Hurt - Chapter 02 #28
lo 3

29. As a form of internal control, sequential numbering is most likely to be associated with which step in the accounting cycle?
- A.** First
 - B. Fifth
 - C. Sixth
 - D. Last

Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #29
lo 3

30. As a form of internal control, transaction limits are most likely to be associated with which step in the accounting cycle?
- A.** Second
 - B. Fourth
 - C. Ninth
 - D. Last

Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #30
lo 3

31. All of the following are common coding systems used in organizations except:
- A. Block
 - B. Hierarchical
 - C. Random**
 - D. Sequential

BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #31
LO 4

32. Which type of coding system helps people remember the meaning of the code?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic**

BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #32
LO 4

33. The accounting department at a local university uses the prefix ACC for all its courses, thus exemplifying which type of coding system?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic**

BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #33
LO 4

34. Courses intended for freshmen at a local university are numbered from 100 to 199, while courses intended for seniors at the same university are numbered from 400 to 499. Which coding system is the university using?
- A. Sequential
 - B. Block**
 - C. Hierarchical
 - D. Mnemonic

BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #34
LO 4

35. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a column labeled "product code," it most likely uses what kind of coding?
- A. Sequential
 - B. Block
 - C. Hierarchical
 - D. Mnemonic**

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #35
LO 4

36. Most organizations use purchase orders to authorize inventory and other purchases. If a company's purchase order contains a field labeled "purchase order number," it most likely uses what kind of coding?
- A. Sequential**
 - B. Block
 - C. Hierarchical
 - D. Mnemonic

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #36
LO 4

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

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #37
LO 4*

38. NTR Corporation has offices in both Los Angeles and San Francisco. In the Los Angeles office, the account number for cash is 001.101. In San Francisco, the account number for cash is 002.101. The account number for accounts receivable in the Los Angeles office is therefore likely to be:
- A.** 001.102
 - B. 002.102
 - C. 102.002
 - D. 002.110

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #38
LO 4*

39. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the income statement?
- A. 101
 - B. 102
 - C. 401
 - D.** 601

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #39
LO 4*

40. ABT Corporation uses block coding for its chart of accounts, which includes Cash (101), Land (201), Accounts payable (301) and Retained Earnings (501). Which of the following account numbers is most likely associated with an account that will appear on the adjusted trial balance but not on the post-closing trial balance?
- A. 203
 - B. 405
 - C. 504
 - D.** 701

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #40
LO 4*

41. Human judgment is important in which of the following AIS tasks: (i) designing source documents, (ii) recognizing recordable transactions.
- A. I only
 - B. II only
 - C.** Both I and II
 - D. Neither I nor II

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #41
LO 5*

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

BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #42
LO 5

43. Which of the following statements about human judgment and information technology in the AIS is most true?
- A. Information technology is a substitute for human judgment.
 - B. Human judgment is a substitute for information technology.
 - C.** Information technology can enhance human judgment.
 - D. Both information technology and human judgment are essential in any AIS.

BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #43
LO 5

44. In an AIS, human judgment is important in:
- A. The second step of the accounting cycle.
 - B. The design and implementation of internal controls.
 - C.** Both A and B.
 - D. Neither A nor B.

BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #44
LO 5

45. Information technology can be an important tool in which of the five generic elements of an AIS?
- A. Inputs and outputs only
 - B. Outputs and storage only
 - C. Processes and storage only
 - D.** Any of the elements

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #45
LO 5

46. Which type of adjusting entry is most likely to involve human judgment?
- A.** Uncollectible accounts
 - B. Accrued liabilities
 - C. Deferred revenue
 - D. Prepaid expenses

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #46
LO 5

47. As an internal control, RSR Corporation requires two signatures on all checks over \$500, thus illustrating the importance of:
- A.** Human judgment.
 - B. Information technology.
 - C. Both human judgment and information technology.
 - D. Neither human judgment nor information technology.

BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #47
LO 5

48. SRE Corporation is a software development company; it uses block coding in its chart of accounts. Which of the following statements is most true?
- A. Information technology may not be necessary to assign new account numbers.
 - B. Human judgment may be involved in assigning new account numbers.
 - C. Both A and B**
 - D. Neither A nor B

*BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #48
LO 5*

49. SBL Corporation's accounting records were destroyed in a fire. In reconstructing them:
- A. Human judgment will be important, but information technology will not.
 - B. Information technology will be important, but human judgment will not.
 - C. Both human judgment and information technology may be important.**
 - D. Neither human judgment nor information technology will be useful.

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #49
LO 5*

50. Both human judgment and information technology are important in accounting information systems. In which of the following pairs of tasks will information technology be more critical than human judgment?
- A. Steps 4 and 9 of the accounting cycle**
 - B. Calculating depreciation and creating a new customer order form in Word
 - C. Step 4 of the accounting cycle and calculating depreciation
 - D. Step 9 of the accounting cycle and creating a new customer order form in Word

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #50
LO 5*

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

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

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #51
LO 2*

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

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

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #56
LO 4

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

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

BLOOM: Analysis
Difficulty: Hard
Hurt - Chapter 02 #57
LO 5

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

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

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

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #59
LO 4*

60. Divide the tasks into two groups of equal size.

Consider the accounting-related tasks below:

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

*Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #60
LO 5*

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

*BLOOM: Knowledge
Difficulty: Easy
Hurt - Chapter 02 #61
LO 2*

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

*BLOOM: Comprehension
Difficulty: Medium
Hurt - Chapter 02 #62
LO 1*

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

BLOOM: Application
Difficulty: Medium
Hurt - Chapter 02 #63
LO 4
lo 3

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

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

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

Bloom: Synthesis
Difficulty: Hard
Hurt - Chapter 02 #65
LO 4

02 Summary

<u>Category</u>	<u># of Questions</u>
BLOOM: Analysis	12
BLOOM: Application	12
BLOOM: Comprehension	13
BLOOM: Knowledge	13
Bloom: Synthesis	13
Difficulty: Easy	13
Difficulty: Hard	26
Difficulty: Medium	26
Hurt - Chapter 02	65
LO 1	13
LO 2	13
lo 3	14
LO 4	14
LO 5	13