Accounting Information Systems Basic Concepts and Current Issues 4th edition Hurt Test Bank

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Chapter 02

Transaction Processing in the AIS

Multiple Choice Questions

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

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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

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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

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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.

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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 university receives cash from students prior to the start of classes and a convenience store sells newspapers to its customers.

D. Neither a university receives cash from students prior to the start of classes nor a convenience store sells newspapers to its customers.

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15. Please refer to the following unadjusted trial balance in answering the below question.

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

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:

A. $49,600

B. $51,200

C. Some other amount

D. Cannot be determined from the information given

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16. Please refer to the following unadjusted trial balance in answering the below question.

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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

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

A. Advertising expense

B. Deferred revenue

C. Retained earnings

D. Sales

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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 their plant assets lose market value over time and the matching concept must be upheld in financial statements.

D. Neither their plant assets lose market value over time nor the matching concept must be upheld in financial statements.

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

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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

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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 sequential numbering and transaction limits

D. Neither sequential numbering nor transaction limits

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.

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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

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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

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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

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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.

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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

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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.

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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 the second step of the accounting cycle and the design and implementation of internal controls.

D. Neither the second step of the accounting cycle nor the design and implementation of internal controls.

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

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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 information technology may not be necessary to assign new account numbers and human judgment may be involved in assigning new account numbers.

D. Neither information technology may not be necessary to assign new account numbers nor human judgment may be involved in assigning new account numbers.

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.

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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

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51. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

All of the following transactions will be part of the third step in the accounting cycle except:

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A. Transaction G.

B. Transaction I.

C. Transaction E.

D. Transaction D.

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52. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

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Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
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Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
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Discount on bonds payable	500	
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f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

Sequential numbering is a common internal control applied to source documents in the accounting information system. Which of the following transactions will involve sequential

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numbering?

A. Transaction A.

B. Transaction F.

C. Transaction G.

D. Transaction J.

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53. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

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Discount on bonds payable	500	
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Additional paid-in capital		3,300
Retained earnings		300
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CNC completed the following transactions in January 2015:

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f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. Which of the following accounts will have the same final digit?

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A. Cash

B. Inventory

C. Both cash and inventory

D. Neither cash nor inventory

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54. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

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Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

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h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The sixth step in the accounting cycle involves six broad types of entries. Which of the indicated transactions is likely to lead to the specified type?

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A. Transaction D, change in market value

B. Transaction H, prepaid expense

C. Transaction D, depreciation

D. Transaction I, uncollectible accounts

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55. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

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Post-closing trial balance		
December 31, 2014		
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Inventory	1,000	
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Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

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d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

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f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The ninth step in the accounting cycle prepares the accounting information system for a new period. Which of the following accounts in CNC's trial balance will be part of the ninth step?

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A. Accounts receivable

B. Supplies

C. Retained earnings

D. Equipment

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56. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
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Land	2,600	
Equipment	3,200	
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Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

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d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

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f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. Which of the following includes accounts that should all have the same first digit?

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A. Accounts receivable, accounts payable, retained earnings

B. Supplies, land, equipment

C. Common stock, additional paid-in capital, retained earnings

D. Bonds payable, discount on bonds payable, cash

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57. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC's operations are currently confined to a single state, but management is considering expanding to additional states. Which of the following statements is most true?

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A. After the expansion, sequential numbering of source documents will no longer be an effective internal control.

B. After the expansion, the chart of accounts may need to use hierarchical coding.

C. After the expansion, CNC will add at least two steps to the accounting cycle.

D. After the expansion, CNC must employ more information technology in its accounting information system.

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58. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. The balance in account #101 at the end of January 2015 will be:

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A. $5000 on the debit side.

B. $5000 on the credit side.

C. Some other amount on the debit side.

D. Some other amount on the credit side.

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59. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

In CNC's general ledger, the account number for inventory is 105. The account number for land is 201. Which of the following transactions will involve the account numbered 301?

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A. Transaction A only.

B. Transaction I only.

C. Both transactions A and I.

D. Neither transactions A nor I.

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60. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The accounting cycle includes three different versions of the trial balance. For CNC, the totals of the trial balance prepared in the seventh step at the end of January will be:

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A. $17,650.

B. some other amount.

C. CNC cannot complete the seventh step in the accounting cycle at the end of January.

D. Cannot be determined from the information given.

Matching Questions

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

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Essay Questions

62. 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		

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63. Supply the correct word for each lettered item below to complete the American Accounting Association's definition of accounting. Accounting is the process of (a), (b), and (c) economic information to permit (d), (e) and decisions by (f) of the information.

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

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64. Put the following statements in the correct order based on the steps in the accounting cycle.

a. Assemble AIS outputs.

b. Debit cash and credit sales.

c. Determine the correct way to enter a transaction in the AIS.

d. Examine a bank statement to determine the amount of a bank service charge.

e. Make entries that account for timing differences between cash flows and accrual basis revenue and expense.

f. Prepare the AIS for a new fiscal year.

g. Reorganize AIS information from chronological to account-based.

h. Verify, for the first time, the equality of debits and credits in the ledger.

i. Verify, for the second time, the equality of debits and credits in the ledger.

j. Verify, for the third time, the equality of debits and credits in the ledger.

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65. Accounting information systems have five generic parts, one of which is internal control. Please give two examples of applicable internal controls for each of the remaining parts of the AIS.

1) Inputs

a. Example 1: _____

b. Example 2: _____

2) Processes

a. Example 1: _____

b. Example 2: _____

3) Outputs

a. Example 1: _____

b. Example 2: _____

4) Storage

a. Example 1: _____

b. Example 2: _____

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66. The American Accounting Association's definition of accounting includes the items listed on the right. Which item is most clearly related to the examples on the left? Some elements of the definition may be used more than once; others may not be used at all. Each item on the left has only one best answer.

1) Calculating straight-line depreciation based on provided information about an asset's cost, salvage value and expected life	
2) Determining the amount of sales tax to add to a customer invoice	
3) Establishing the current market value of short-term investments in securities	
4) Expanding a company's operations to another country	a. Identifying economic information
5) Filing required annual reports with the SEC	b. Measuring economic information
6) Investing in a company based on an analysis of its financial statements	c. Communicating economic information
7) Locating the current exchange rate between the US dollar and the Euro	d. Making informed judgments and decisions
8) Looking up the amount of tax due	
9) Preparing a presentation of a company's key financial results for its annual shareholders' meeting	
10) Submitting a budget to upper management	

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67. 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

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.

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68. 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		

Divide the tasks into two groups of equal size.

Short Answer Questions

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69. 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.

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70. The procedures manual for THM Corporation included the following statements:

a. Accounting department employees are encouraged to obtain a professional certification.

b. Adjusting entries involving estimates must have those estimates approved by the CFO before they are recorded in the AIS.

c. All employees accrue sick time at the rate of one hour per month.

d. All purchase orders must be prepared in triplicate, with the original going to the vendor, the blue copy staying in purchasing and the yellow copy returning to department that initiated the purchase request.

e. All transactions must be recorded in the journal, then posted to the ledger.

f. Employees are paid twice a month; journal entries for payroll are recorded two days prior to each pay date.

g. New account numbers must follow the principles of hierarchical coding; they must be reviewed and approved before becoming part of the AIS.

h. THM is organized in five major departments: accounting, marketing, human resources, information systems and operations.

i. THM uses Great Plains Dynamics as its general ledger software. Great Plains will not allow transactions to be recorded unless the equality of debits and credits is maintained.

j. THM's accounting information system is audited annually by Dewey, Cheatam and Howe, CPAs.

Which **five** statements from the procedures manual most directly explain internal controls related to the accounting cycle?

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

72. Explain, in your own words, two similarities and two differences between "accounting" and "bookkeeping."

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73. 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.

74. The text discussed common internal controls associated with the steps in the accounting cycle; it also discussed the role of human judgment and information technology in the cycle. Identify and describe:

a. One way human judgment can improve internal control in the accounting cycle.
b. One way information technology can improve internal control in the accounting cycle.
c. One way human judgment can create internal control challenges in the accounting cycle.
d. One way information technology can create internal control challenges in the accounting cycle.

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75. 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

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.

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Chapter 02 Transaction Processing in the AIS Answer Key

Multiple Choice Questions

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

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of accounting

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

AACSB: Analytical Thinking
AICPA: FN Reporting

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Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Differentiate accounting and bookkeeping.

Topic: Definition of accounting

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.

AACSB: Analytical Thinking

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Differentiate accounting and bookkeeping.

Topic: Definition of 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.

AACSB: Analytical Thinking

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Differentiate accounting and bookkeeping.

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Topic: Definition of 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

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of 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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of accounting

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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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of 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

AACSB: Analytical Thinking
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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.

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Topic: Definition of accounting

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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of accounting

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

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of accounting

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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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.
Topic: Accounting cycle

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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.
Topic: Accounting cycle

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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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.
Topic: Accounting cycle

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 university receives cash from students prior to the start of classes and a convenience store sells newspapers to its customers.
D. Neither a university receives cash from students prior to the start of classes nor a convenience store sells newspapers to its customers.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

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Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

15. Please refer to the following unadjusted trial balance in answering the below question.

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

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:

A. $49,600

B. $51,200

C. Some other amount

D. Cannot be determined from the information given

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

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16. Please refer to the following unadjusted trial balance in answering the below question.

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

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

A. Advertising expense

B. Deferred revenue

C. Retained earnings

D. Sales

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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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.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.
Topic: Accounting cycle

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 their plant assets lose market value over time and the matching concept must be upheld in financial statements.
D. Neither their plant assets lose market value over time nor the matching concept must be upheld in financial statements.

AACSB: Analytical Thinking
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.
Topic: Accounting cycle

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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

AACSB: Analytical Thinking

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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

AACSB: Analytical Thinking

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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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 sequential numbering and transaction limits
D. Neither sequential numbering nor transaction limits

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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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.

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.

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Topic: Internal contro

27. As an internal control for source documents, sequential numbering is most likely to ___ an error.

A. Prevent
B. Detect
C. Correct
D. Eliminate

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal contro

28. As an internal control for source documents, transaction limits are most likely to ___ an error.

A. Prevent
B. Detect
C. Correct
D. Eliminate

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal contro

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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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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

AACSB: Analytical Thinking
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.
Topic: Internal control

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31. All of the following are common coding systems used in organizations except:

A. Block

B. Hierarchical

C. Random

D. Sequential

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

32. Which type of coding system helps people remember the meaning of the code?

A. Sequential

B. Block

C. Hierarchical

D. Mnemonic

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

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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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

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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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

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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.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

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Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

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

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

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Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

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.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

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 the second step of the accounting cycle and the design and implementation of internal controls.

D. Neither the second step of the accounting cycle nor the design and implementation of internal controls.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

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Topic: Human judgment and information technology

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and information technology

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and information technology

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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.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and 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 information technology may not be necessary to assign new account numbers and human judgment may be involved in assigning new account numbers.
D. Neither information technology may not be necessary to assign new account numbers nor human judgment may be involved in assigning new account numbers.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and information technology

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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.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and information technology

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.
Topic: Human judgment and information technology

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51. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

All of the following transactions will be part of the third step in the accounting cycle except:

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A. Transaction G.

B. Transaction I.

C. Transaction E.

D. Transaction D.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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52. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
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e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

Sequential numbering is a common internal control applied to source documents in the accounting information system. Which of the following transactions will involve sequential

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numbering?

A. Transaction A.

B. Transaction F.

C. Transaction G.

D. Transaction J.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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CNC Corporation		
Post-closing trial balance		
December 31, 2014		
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Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
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CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. Which of the following accounts will have the same final digit?

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A. Cash

B. Inventory

C. Both cash and inventory

D. Neither cash nor inventory

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Coding systems

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54. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

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Post-closing trial balance		
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Discount on bonds payable	500	
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CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

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e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The sixth step in the accounting cycle involves six broad types of entries. Which of the indicated transactions is likely to lead to the specified type?

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A. Transaction D, change in market value

B. Transaction H, prepaid expense

C. Transaction D, depreciation

D. Transaction I, uncollectible accounts

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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Land	2,600	
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Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The ninth step in the accounting cycle prepares the accounting information system for a new period. Which of the following accounts in CNC's trial balance will be part of the ninth step?

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A. Accounts receivable

B. Supplies

C. Retained earnings

D. Equipment

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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56. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. Which of the following includes accounts that should all have the same first digit?

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A. Accounts receivable, accounts payable, retained earnings

B. Supplies, land, equipment

C. Common stock, additional paid-in capital, retained earnings

D. Bonds payable, discount on bonds payable, cash

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Coding systems

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57. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC's operations are currently confined to a single state, but management is considering expanding to additional states. Which of the following statements is most true?

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A. After the expansion, sequential numbering of source documents will no longer be an effective internal control.

B. After the expansion, the chart of accounts may need to use hierarchical coding.

C. After the expansion, CNC will add at least two steps to the accounting cycle.

D. After the expansion, CNC must employ more information technology in its accounting information system.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Coding systems

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58. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

CNC uses block coding for its chart of accounts. The balance in account #101 at the end of January 2015 will be:

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A. $5000 on the debit side.

B. $5000 on the credit side.

C. Some other amount on the debit side.

D. Some other amount on the credit side.

$6400 + $500 - $900 - $700 - $150 - $150 = $5000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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59. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

In CNC's general ledger, the account number for inventory is 105. The account number for land is 201. Which of the following transactions will involve the account numbered 301?

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A. Transaction A only.

B. Transaction I only.

C. Both transactions A and I.

D. Neither transactions A nor I.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Coding systems

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60. At the end of 2014, CNC Corporation's accounting information system produced the following trial balance:

CNC Corporation		
Post-closing trial balance		
December 31, 2014		
Cash	$ 6,400	
Accounts receivable	2,300	
Inventory	1,000	
Supplies	700	
Land	2,600	
Equipment	3,200	
Accumulated depreciation: equipment		$ 400
Accounts payable		1,600
Bonds payable		4,000
Discount on bonds payable	500	
Common stock		7,100
Additional paid-in capital		3,300
Retained earnings		300
Totals	$ 16,700	$ 16,700

CNC completed the following transactions in January 2015:

a. Purchased inventory on account, $300.

b. Collected cash from customers for prior year sales, $500.

c. Paid current month's wages, $900.

d. Had land appraised. Cost of doing the appraisal (paid in cash), $700. Appraised value of land, $3,000.

e. Sold inventory with a cost basis of $200 on account, $800.

f. Declared dividends, $50.

g. Hired additional sales staff. Expected monthly salaries, $80.

h. Purchased supplies for cash, $150.

i. Paid creditors for previous purchases, $150.

j. Signed a contract for annual employee retreat, $450.

The accounting cycle includes three different versions of the trial balance. For CNC, the totals of the trial balance prepared in the seventh step at the end of January will be:

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A. $17,650.

B. some other amount.

C. CNC cannot complete the seventh step in the accounting cycle at the end of January.

D. Cannot be determined from the information given.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

Matching Questions

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

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.
Topic: Coding systems

Essay Questions

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62. 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		

Accrued revenue: asset, revenue

Accrued expense: expense, liability

Deferred revenue: liability, revenue

Prepaid expense: expense, asset

Depreciation: expense, contra-asset

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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63. Supply the correct word for each lettered item below to complete the American Accounting Association's definition of accounting. Accounting is the process of (a), (b), and (c) economic information to permit (d), (e) and decisions by (f) of the information.

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

a. identifying

b. measuring

c. communicating

d. informed

e. judgments

f. users

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Differentiate accounting and bookkeeping.

Topic: Definition of accounting

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64. Put the following statements in the correct order based on the steps in the accounting cycle.

a. Assemble AIS outputs.

b. Debit cash and credit sales.

c. Determine the correct way to enter a transaction in the AIS.

d. Examine a bank statement to determine the amount of a bank service charge.

e. Make entries that account for timing differences between cash flows and accrual basis revenue and expense.

f. Prepare the AIS for a new fiscal year.

g. Reorganize AIS information from chronological to account-based.

h. Verify, for the first time, the equality of debits and credits in the ledger.

i. Verify, for the second time, the equality of debits and credits in the ledger.

j. Verify, for the third time, the equality of debits and credits in the ledger.

D, C, B, G, H, E, I, A, F, J

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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65. Accounting information systems have five generic parts, one of which is internal control. Please give two examples of applicable internal controls for each of the remaining parts of the AIS.

1) Inputs

a. Example 1: _____

b. Example 2: _____

2) Processes

a. Example 1: _____

b. Example 2: _____

3) Outputs

a. Example 1: _____

b. Example 2: _____

4) Storage

a. Example 1: _____

b. Example 2: _____

1) physical security, sequential numbering

2) using general ledger software, preparing a trial balance

3) financial statement audits, supervisory review

4) daily data backup, access to files by password only

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.

Topic: Internal control

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66. The American Accounting Association's definition of accounting includes the items listed on the right. Which item is most clearly related to the examples on the left? Some elements of the definition may be used more than once; others may not be used at all. Each item on the left has only one best answer.

1) Calculating straight-line depreciation based on provided information about an asset's cost, salvage value and expected life	
2) Determining the amount of sales tax to add to a customer invoice	
3) Establishing the current market value of short-term investments in securities	
4) Expanding a company's operations to another country	a. Identifying economic information
5) Filing required annual reports with the SEC	b. Measuring economic information
6) Investing in a company based on an analysis of its financial statements	c. Communicating economic information
7) Locating the current exchange rate between the US dollar and the Euro	d. Making informed judgments and decisions
8) Looking up the amount of tax due	
9) Preparing a presentation of a company's key financial results for its annual shareholders' meeting	
10) Submitting a budget to upper management	

1. B
2. B
3. A
4. D
5. C
6. D
7. A
8. A
9. C
10. C

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Differentiate accounting and bookkeeping.

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67. 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

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.

Accounts receivable: 102.02.02

Accumulated depreciation—buildings: 202.02.02

Advertising expense: 704.02.02

Advertising payable: 304.02.02

Buildings: 201.02.02

Cash: 101.02.02

Depreciation expense: 705.02.02

Sales: 601.02.02

Wages expense: 703.02.02

Wages payable: 306.02.02

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AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

68. 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		

Divide the tasks into two groups of equal size.

Human judgment: A, C, D, F

Information technology: B, E, G, H

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

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Short Answer Questions

69. 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.

Input data for the corporate tax return: human judgment, information technology

Developed initial estimates of bad debts: human judgment

Downloaded cost and budget information: information technology

Investigating potential fraud: human judgment, information technology

Analyze spending patterns: human judgment, information technology

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

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Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

70. The procedures manual for THM Corporation included the following statements:

a. Accounting department employees are encouraged to obtain a professional certification.
b. Adjusting entries involving estimates must have those estimates approved by the CFO before they are recorded in the AIS.
c. All employees accrue sick time at the rate of one hour per month.
d. All purchase orders must be prepared in triplicate, with the original going to the vendor, the blue copy staying in purchasing and the yellow copy returning to department that initiated the purchase request.
e. All transactions must be recorded in the journal, then posted to the ledger.
f. Employees are paid twice a month; journal entries for payroll are recorded two days prior to each pay date.
g. New account numbers must follow the principles of hierarchical coding; they must be reviewed and approved before becoming part of the AIS.
h. THM is organized in five major departments: accounting, marketing, human resources, information systems and operations.
i. THM uses Great Plains Dynamics as its general ledger software. Great Plains will not allow transactions to be recorded unless the equality of debits and credits is maintained.
j. THM's accounting information system is audited annually by Dewey, Cheatam and Howe, CPAs.

Which **five** statements from the procedures manual most directly explain internal controls related to the accounting cycle?

B, D, E, F, I

AACSB: Analytical Thinking

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AICPA: FN Risk Analysis

Blooms: Analyze

Difficulty: 3 Hard

Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.

Topic: Internal control

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

1. Obtain information about external transactions from source documents.
2. Analyze transactions.
3. Record the transactions in a journal.
4. Post from the journal to the general ledger accounts.
5. Prepare an unadjusted trial balance.
6. Record adjusting entries and post to the general ledger accounts.
7. Prepare an adjusted trial balance.
8. Prepare financial statements.
9. Close the temporary accounts to retained earnings (at year-end only).
10. Prepare a post-closing trial balance (at year-end only).

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 List, discuss, and complete, in order, the steps in the accounting cycle.

Topic: Accounting cycle

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72. Explain, in your own words, two similarities and two differences between "accounting" and "bookkeeping."

Similarities between accounting and bookkeeping include their focus on economic information and the necessity of completing the steps in the accounting cycle. Differences include: accounting is a much broader field than bookkeeping and accounting includes more communication and decision making.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Differentiate accounting and bookkeeping.
Topic: Definition of accounting

73. 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.

Yes, the use of block or hierarchical coding in the chart of accounts can be considered a form of internal control. Properly coding the chart of accounts helps ensure that the correct accounts get on the correct financial statements. Additionally, a company may choose to restrict access to certain accounts based on the code; for example, accounts pertaining to the marketing department could not be accessed by employees in human resources.

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
Blooms: Understand
Difficulty: 2 Medium

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Learning Objective: 02-03 Identify common internal controls associated with the accounting cycle.

Topic: Internal contro

74. The text discussed common internal controls associated with the steps in the accounting cycle; it also discussed the role of human judgment and information technology in the cycle. Identify and describe:

a. One way human judgment can improve internal control in the accounting cycle.

b. One way information technology can improve internal control in the accounting cycle.

c. One way human judgment can create internal control challenges in the accounting cycle.

d. One way information technology can create internal control challenges in the accounting cycle.

a. Supervisors may review the work of inexperienced employees.

b. Most general ledger software will not allow journal entries where the debits and credits are unequal.

c. In areas where human judgment is involved, such as the estimation of bad debts, people may deliberately exercise that judgment to benefit/harm the company.

d. Information technology assets require additional forms of internal control, such as passwords.

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-05 Explain how human judgment and information technology affect the accounting cycle.

Topic: Human judgment and information technology

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75. 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

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.

The company needs to use hierarchical coding. They may use the original account numbers from WDN, and add a second block to denote which company pertains to each account. If WDN is designated as 01 and JZN as 02, the new account numbers would look like this:

Cash: 101.01 for WDN, 101.02 for JZN
Inventory: 105.01 for WDN, 105.02 for JZN

Coding the accounts in that way will allow the company to prepare combined financial statements (based on the first block of digits) as well as separate statements for each firm

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(based on the second block of digits).

AACSB: Analytical Thinking

AICPA: FN Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Describe common coding systems and how they are used in the AIS.

Topic: Coding systems

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