

Accounting Controls-Best Practice AAC10308- 14 CPE Hours

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Instructions: Please circle the most appropriate response. Please make sure to clearly circle only one answer.

Chapter 1:

1. The author states "This book is entirely about the control point....." A control point is
 - A. An activity within a process that will prevent a process breakdown
 - B. An activity within a process that will detect a process breakdown
 - C. Both A and B
 - D. None of the above

2. Control points can break down through
 - A. inattention
 - B. lack of training
 - C. fraud
 - D. all of the above

3. There are 4 types of controls: primary, supplemental, ancillary and tertiary.
 - a) True
 - b) False

4. A supervisor reviewing a key aspect of a transaction before it is completed is an example of
 - a) A primary control
 - b) An ancillary control
 - c) A tertiary control
 - d) None of the above

5. Verification controls such as an inventory audit, are considered a primary control.
 - a) True
 - b) False

6. The presence of a strong control environment is directly related to a reduced need for ancillary control points.
 - a) True
 - b) False

7. Areas of major risk are:
 - a) Revenue recognition
 - b) Capitalization of assets
 - c) Valuation of reserves
 - d) All of the above

8. Segregation of duties
 - a) Requires high levels of collusion to commit fraud
 - b) Is expensive
 - c) Requires evaluation of the cost and benefit of such a system
 - d) All of the above

9. The author states that this book, since it is broad-based source of control concepts, it is useful for completing some steps in the Sarbanes review process.
 - a) True
 - b) False

10. Once a control is in place, it doesn't need to be reviewed for at least 3 years.
 - a) True
 - b) False

11. A good set of intricate interlocking controls will ensure the complete elimination of risk from a process.
- a) True
 - b) False

Chapter 2

12. Luckily, no companies still use an entirely paper based system to conduct their accounts payable process anymore.
- a) True
 - b) False
13. For companies not using purchase orders, the major control point is the check signer comparing the voucher package to check.
- a) True
 - b) False
14. Since the purchase order is a key part of many accounts payable systems, some basic controls would include:
- a) Reconciling supplier credit memos to shipping documentation
 - b) Prenumbering purchase orders
 - c) Maintaining a register of unapproved supplier invoices
 - d) All of the above
15. Security features for check stock, such as adding watermarks and “Void” pantographs are relatively inexpensive and should be added as controls.
- c) True
 - d) False
16. It is a good idea for the check signer to also have the responsibility for performing the bank reconciliations.
- a) True
 - b) False
17. With an automated system, the following manual investigations can be avoided
- a) Searching for duplicate invoice numbers

- b) Monitoring payables by due date
 - c) Signing checks
 - d) Both A and B
18. The following is true of the vendor master file.
- a) New suppliers should have a credit report run on them before being added to the vendor master file
 - b) Standard naming conventions should be used when creating supplier names
 - c) Changes to the vendor master file should be reviewed daily
 - d) All of the above
19. The central problem with the accounts payable system is that the primary control point, occurs before the service or product has been delivered.
- a) True
 - b) False
20. Which of the following statements is false?
- a) Many larger companies have recognized the futility of the control represented by the check signer and have eliminated this control through the use of a signature stamp, electronic signature image of some similar device.
 - b) The check signer is a better control point than a purchase order
 - c) The key control point for automated check signing is requiring the purchasing staff to issue a PO for every purchase made.
 - d) If using purchase orders as a point of control, then the receiving department must reject all items that do not have an authorized purchase order.
21. Which of the following is true?
- a) Require signed approval document for manually initiated electronic payments
 - b) Under evaluated receipt settlement, a company pays its suppliers based upon the supplier invoice
 - c) The evaluated receipts settlement approach is used primarily for purchases related to services
 - d) The use of electronic payments requires less extensive and rigorous set of controls than manual payments.

Chapter 3

22. A computerized order entry and shipment system greatly compresses the time required to complete these processes but increase the risk of information being lost.
- a) True
 - b) False
23. Even the most basic order entry computer system that is linked to the current inventory balances, should
- a) Present the order entry staff with similar products that are currently in stock
 - b) Warn the order entry staff if there is not a sufficient quantity in stock to fulfill an order
 - c) Predict the standard lead time required to obtain additional inventory if there is not sufficient quantity on hand
 - d) Both B and C
24. One of the best control improvements that a computer system brings to the order entry process is the ability to automatically set up product prices based on the standard corporate price book.
- a) True
 - b) False
25. Which is true of controls for order entry, credit and shipment ?
- a) Any complex billing and payment terms should be set up set up during the initial order entry point
 - b) Customer order should be reviewed with shipping prior to credit approval
 - c) Both A and B
 - d) None of the above
26. To improve efficiency and control, the following steps should be followed:
- a) Do not audit orders below the credit review threshold
 - b) Use data validation checks during the order entry process
 - c) Do not review credit for smaller orders under \$100
 - d) Both A and C
27. The best credit control is to analyze with a credit decision table.
- a) True
 - b) False

28. Some basic credit controls that should be adhered to are:
- a) Creation of a credit policy
 - b) Conducting regular staff training in credit procedures
 - c) Requiring a credit application for orders above a baseline level
 - d) All of the above
29. The credit levels of the following customers should not be reviewed
- a) All customers issuing NSF checks
 - b) All customers who skip payments
 - c) Customers who stop taking early payment discounts
 - d) None of the above
30. For orders received electronically:
- a) All Credit cards should be verified
 - b) All EDI transmissions should be manually reviewed
 - c) Confirmations need not be sent to the customer
 - d) All of the above
31. A key issue related to the receipt of electronic orders is the number of control points that are no longer required.
- a) True
 - b) False
32. Which of the following statements is true?
- a) The area of greatest risk in the process flow is simply ensuring that the supplier has received a copy of the customer order when drop shipping.
 - b) Customers with evaluated receipt systems always place orders with purchase orders, since the purchase order number is the key number used by them to approve incoming shipments
 - c) Not allowing extended rights of return limits the ability of sales to engage in “channel stuffing”
 - d) All of the above
- Chapter 4
33. Which is true of controls for order entry, credit and shipment ?
- a) Without a formal inventory management system, only the warehouse staff knows which inventory items are running low

- b) Deliveries for which there are no accompanying purchase orders should not be accepted by the receiving staff
 - c) Purchasing and receiving functions should be consolidated as much as possible
 - d) A and B
34. When receiving goods:
- a) Items should be properly identified and tagged prior to storage
 - b) Items should be inspected against a receiving check list
 - c) Inventory should be stored in pre-assigned locations that have been designated
 - d) All of the above
35. To reduce theft of inventory:
- a) Pick inventory from the source document
 - b) Restrict warehouse access
 - c) Verify that the purchase order matches the requisition
 - d) Put away items immediately after receipt
36. If inventory quantities are recorded properly then you don't need to be concerned with valuation of inventory except at year end.
- a) True
 - b) False
37. The single largest cause of inventory valuation errors is labor routing costs.
- a) True
 - b) False
38. The primary risks associated with obsolete inventory is/are that
- a) The inventory will not be promptly recognized as obsolete
 - b) That inventory will be improperly designated as obsolete
 - c) The junkyard will not accept it
 - d) Both A and B
39. The single most important control over the amount and location of inventory on hand is the use of a perpetual inventory system.
- a) True
 - b) False

40. Controls for Advanced Warehouse Systems that simple systems would not have include
- a) Cross docking inventory
 - b) Pre-number sales order forms
 - c) Zone picking
 - d) A and C
41. MRP is the acronym for
- a) Material Resources Planning
 - b) Manufacturing Resources Planning
 - c) Material Requirements Planning
 - d) Manufacturing Requirements Planning
42. In a MRP system, an inventory record accuracy of ___% needs to be maintained.
- a) 85%
 - b) 90%
 - c) 95%
 - d) 100%
43. A kanban is
- a) a type of scanner
 - b) a Machine setup process
 - c) an authorization to create a specific quantity of inventory
 - d) None of the above

Chapter 5

44. Which of the following is false?
- a) Billing and collections should never be segregated
 - b) All returned invoices should be routed directly to accounting so they can research the correct address, update the files and reissue the invoice
 - c) Product samples should be noted in the shipping log
 - d) A good detective control over fraud is to have a person other than the normal billing clerk create and mail month-end account statements to customers.
45. When EDI invoices are issued
- a) an acknowledgement or confirmation of receiving EDI invoice should be made

- b) Match EDI transmission document to invoice
- c) A and B
- d) None of the above

46. Controls for credit memos include:

- a) Matching payment to invoiced purchase order
- b) Matching credit memos to receiving documents
- c) A and B
- d) None of the above

47. Establishing a policy of not using bill and hold transactions assists in adopting consistent revenue recognition practices tied to billings.

- a) True
- b) False

Chapter 6

48. One of the easiest areas from which to remove assets from a company is

- a) shipping
- b) Cash handling
- c) inventory valuation
- d) None of the above

49. A baseline cash-handling system requires the involvement of ___ person/people.

- a) 1
- b) 2
- c) 3
- d) 4

50. The following control(s) should be implemented in a cash-handling area

- a) mailroom should endorse checks "for deposit only"
- b) accounting manager reconciles bank statement to general ledger
- c) immediately review unapplied cash
- d) All of the above

51. Taking money paid by customer A, then using cash from customer B to pay customer A's account and so on is called

- a) Skimming
 - b) Lockboxing
 - c) Lapping
 - d) None of the above
52. The number of controls needed in a lockbox environment is considerably reduced, since there is no cash on the corporate premises.
- a) True
 - b) False
53. The process of converting a paper check into an electronic deposit is called
- a) ACH
 - b) skimming
 - c) lockbox truncation
 - d) None of the above
54. Which is not a control of basic cash receipts?
- a) Reconcile cash to cash receipts
 - b) Give copy of receipt to customer
 - c) Create a cash forecast
 - d) Position the safe in a visible location
55. Which of the following is/are basic credit card receipt control(s)?
- a) Set up a separate bank account for incoming credit card payments
 - b) Shred all documents containing credit card numbers
 - c) Bond all employees having access to credit card information
 - d) All of the above
56. Petty cash is a better choice for small purchases rather than procurement cards.
- a) True
 - b) False
57. Which of the following would raise concerns about the petty cash area?
- a) IOU vouchers
 - b) Incomplete receipts
 - c) Both A and B

d) Neither A nor B

58. Creating a cash forecast is an important investment control.

- a) True
- b) False

59. It is helpful to develop a range of policies related to cash handling and make them known.

- a) True
- b) False

Chapter 7

60. Of the two types of payroll fraud, false boosting of reported hours worked is by far the most expensive.

- a) True
- b) False

61. In addition to fraud, there is a high risk of data errors being made in the payroll area.

- a) True
- b) False

62. A key payroll control

- a) is to verify against the current employee list that time cards have been received from all employees
- b) obtain supervisory approval that the hours submitted on time cards are correct and authorized
- c) hand paychecks directly to employees
- d) All of the above

63. It is not recommended that the paymaster retain unclaimed checks until the employee is available.

- a) True
- b) False

64. Some additional payroll controls include:

- a) Look for paychecks having no tax or other deduction
- b) Require approval of all negative deductions

- c) Both A and B
- d) None of the above

65. Controls over computerized time-keeping systems could include biometric time clocks.

- a) True
- b) False

66. A high-level control over the reasonableness of the payroll expense is to compare it to the budgeted expense, department by department

- a) True
- b) False

67. If adequate controls are in place then you don't need to have employees sign pay receipts for cash payments since this is so time consuming.

- a) True
- b) False

68. The control system for a computerized payroll computation system is substantially different from that used for an entirely manual system.

- a) True
- b) False

69. Payroll self-service is not very common and is not recommended

- a) True
- b) False

70. One of the worst practices is to require all employees to receive electronic payroll payments.

- a) True
- b) False

Chapter 8

71. A periodic fixed asset audit should review every fixed asset over \$100.

- a) True
- b) False

72. The largest set of fixed asset controls relate to the sale of fixed assets.

- a) True
- b) False

73. Fixed asset controls are important as incorrect recording and depreciation calculations can adversely affect reported financial results.

- a) True
- b) False

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1	A B C D	24	A B C D	47	A B C D	70	A B C D
2	A B C D	25	A B C D	48	A B C D	71	A B C D
3	A B C D	26	A B C D	49	A B C D	72	A B C D
4	A B C D	27	A B C D	50	A B C D	73	A B C D
5	A B C D	28	A B C D	51	A B C D	74	A B C D
6	A B C D	29	A B C D	52	A B C D	75	A B C D
7	A B C D	30	A B C D	53	A B C D	76	A B C D
8	A B C D	31	A B C D	54	A B C D	77	A B C D
9	A B C D	32	A B C D	55	A B C D	78	A B C D

10	A B C D	33	A B C D	56	A B C D	79	A B C D
11	A B C D	34	A B C D	57	A B C D	80	A B C D
12	A B C D	35	A B C D	58	A B C D	81	A B C D
13	A B C D	36	A B C D	59	A B C D	82	A B C D
14	A B C D	37	A B C D	60	A B C D	83	A B C D
15	A B C D	38	A B C D	61	A B C D	84	A B C D
16	A B C D	39	A B C D	62	A B C D	85	A B C D
17	A B C D	40	A B C D	63	A B C D	86	A B C D
18	A B C D	41	A B C D	64	A B C D	87	A B C D
19	A B C D	42	A B C D	65	A B C D	88	A B C D
20	A B C D	43	A B C D	66	A B C D	89	A B C D
21	A B C D	44	A B C D	67	A B C D	90	A B C D
22	A B C D	45	A B C D	68	A B C D		
23	A B C D	46	A B C D	69	A B C D		

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On a scale of 1 (highest) to 5 (lowest), please evaluate the following.

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