Chapter 7: Accounting Information Systems

DO IT! 1 Basic AIS Concepts

Indicate whether the following statements are true or false.

1. An accounting information system collects and processes transaction data and communicates financial information to decision-makers.
2. A company typically enters data only once in a manual accounting system.
3. Enterprise resource planning (ERP) systems are typically used by companies with revenues of less than $5 million and up to 20 employees.

Solution

1. True. 2. False. A company typically enters data only once in a computerized accounting system. 3. False. Enterprise resource planning (ERP) systems are typically used by manufacturing companies with more than 500 employees and $500 million in sales.

Related exercise material: BE7-1, BE7-2, BE7-3, and 7-1.

DO IT! 2 Subsidiary Ledgers

Presented below is information related to Sims Company for its first month of operations. Determine the balances that appear in the accounts payable subsidiary ledger. What Accounts Payable balance appears in the general ledger at the end of January?

<table>
<thead>
<tr>
<th>Credit Purchases</th>
<th>Cash Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 5 Devon Co.</td>
<td>$11,000</td>
</tr>
<tr>
<td>11 Shelby Co.</td>
<td>7,000</td>
</tr>
<tr>
<td>22 Taylor Co.</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Solution

Subsidiary ledger balances:
- Devon Co.: $4,000 ($11,000 − $7,000)
- Shelby Co.: $5,000 ($7,000 − $2,000)
- Taylor Co.: $5,000 ($14,000 − $9,000)
- General ledger Accounts Payable balance: $14,000 ($4,000 + $5,000 + $5,000)

Related exercise material: BE7-4, BE7-5, E7-1, E7-2, E7-3, E7-4, E7-5, and 7-2.
Swisher Company had the following transactions during March.
1. Collected cash on account from Oakland Company.
2. Purchased equipment by signing a note payable.
3. Sold merchandise on account.
4. Purchased merchandise on account.
5. Paid $2,400 for a 2-year insurance policy.

Identify the journal in which each of the transactions above is recorded. The company uses the special journals described in the chapter plus a general journal.

**Solution**

1. Collected cash on account from Oakland Company. Cash receipts journal
2. Purchased equipment by signing a note payable. General journal
3. Sold merchandise on account. Sales journal
4. Purchased merchandise on account. Purchases journal
5. Paid $2,400 for a 2-year insurance policy. Cash payments journal

Related exercise material: BE7-6, BE7-7, BE7-8, BE7-9, BE7-10, E7-6, E7-7, E7-8, E7-10, and DO IT! 7-3.

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**Exercises**

**DO IT! 7-1** Indicate whether the following statements are true or false.
1. A computerized accounting system must be customized to meet a company's needs.
2. Companies with revenues of less than $5 million and up to 20 employees generally use entry-level programs rather than ERP systems.
3. A manual accounting system provides more timely financial information than a computerized system.

**DO IT! 7-2** Presented below is information related to Rizzo Company for its first month of operations. Determine the balances that appear in the accounts payable subsidiary ledger. What Accounts Payable balance appears in the general ledger at the end of January?

<table>
<thead>
<tr>
<th>Credit Purchases</th>
<th>Cash Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 6 Gorst Company $11,000</td>
<td>Jan. 11 Gorst Company $ 6,500</td>
</tr>
<tr>
<td>Jan. 10 Tian Company 12,000</td>
<td>Jan. 16 Tian Company 12,000</td>
</tr>
<tr>
<td>Jan. 23 Maddox Company 10,000</td>
<td>Jan. 29 Maddox Company 7,700</td>
</tr>
</tbody>
</table>

**DO IT! 7-3** Hinske Company had the following transactions during April.
1. Sold merchandise on account.
2. Purchased merchandise on account.
3. Collected cash from a sale to Renfro Company.
4. Recorded accrued interest on a note payable.
5. Paid $2,000 for supplies.

Identify the journal in which each of the transactions above is recorded.