

1 Answer: B) Installing the accounting software

Explanation:

The first step in setting up a CAS is installing the accounting software. This includes **downloading, configuring, and ensuring compatibility** with the business environment. After installation, users need to **set up company details, configure preferences, and create a database**. Choosing software that meets the organization's needs is critical, as different software provides varying levels of **customization, scalability, and security**.

2 Answer: B) A predefined list of accounts for financial transactions

Explanation:

A **Chart of Accounts (COA)** is a systematic list of all accounts used in an organization's financial records. It categorizes **assets, liabilities, equity, revenues, and expenses**, each assigned a unique account number. A well-structured COA **ensures accurate financial reporting, simplifies data entry, and helps in decision-making**. In CAS, the COA is essential for **recording transactions correctly and maintaining consistency in financial statements**.

3 Answer: A) Bank loans and Accounts payable

Explanation:

Liabilities represent a company's financial obligations or debts. In a COA, this section includes items like **bank loans, accounts payable, accrued expenses, and taxes payable**. These accounts reflect amounts that the company owes to external parties and must be settled in the future. Proper classification under liabilities ensures **accurate financial analysis and compliance with accounting standards**.

4 Answer: B) A method of assigning unique codes to accounts

Explanation:

Codification refers to **assigning unique numerical or alphanumeric codes** to each account in the COA. This helps in **quick identification, classification, and retrieval of financial data**. For example, in a coding system:

- **1xxx** series may represent assets,
- **2xxx** for liabilities,
- **4xxx** for revenues, etc.

Proper codification improves **data organization, reduces errors, and speeds up accounting operations** in CAS.

5 **Answer: B) A structured classification of accounts under major groups**

Explanation:

The **hierarchy of account heads** in a CAS refers to the **organization of accounts under main groups** such as **Assets, Liabilities, Equity, Income, and Expenses**. Within these main groups, sub-groups exist, such as **Fixed Assets, Current Assets, Long-term Liabilities, and Operating Expenses**. This structured classification **ensures systematic financial reporting, improves clarity, and helps in generating accurate statements**.

6 **Answer: B) To record financial transactions in the system**

Explanation:

Data entry involves **inputting financial transactions into the accounting system, such as sales, purchases, payments, and receipts**. This is the foundation of the accounting process, ensuring that all financial activities are **accurately captured and stored**. Proper data entry reduces errors and allows **real-time financial monitoring**.

7 **Answer: B) To ensure entered data is accurate and complete**

Explanation:

Data validation checks **accuracy, consistency, and completeness** of financial entries before they are processed. CAS uses validation rules like:

- Ensuring **numerical values** in amount fields
- Matching transaction dates with system records
- Verifying account balances before posting

This reduces errors, prevents fraud, and ensures **reliable financial reporting**.

8 **Answer: A) To recheck financial entries for accuracy**

Explanation:

Data verification involves **cross-checking entered data with source documents** (such as invoices, receipts, and bank statements) to confirm accuracy. This process is essential for **identifying errors, preventing fraud, and ensuring compliance with accounting standards**.

9 **Answer: B) Updating depreciation expense for the month**

Explanation:

Adjusting entries are made at the **end of an accounting period** to ensure financial records accurately reflect revenue and expenses. Depreciation is a common adjusting entry to **allocate the cost of assets over their useful life**. Other examples include **accrued expenses, prepaid expenses, and interest adjustments**.

10 **Answer: A) To determine the financial position of a company**

Explanation:

Financial statements (Balance Sheet, Income Statement, and Cash Flow Statement) provide a summary of **financial performance and position**. A CAS automates this process, ensuring that businesses **generate accurate, real-time financial reports** that aid decision-making and compliance with legal requirements.

11 **Answer: B) Recognizing interest accrued but not yet received**

Explanation:

Adjusting entries ensure that **revenues and expenses are recorded in the correct accounting period**. Accrued interest (earned but not yet received) is an example of an adjustment made before financial statements are finalized. Other adjusting entries include **depreciation, prepaid expenses, and accrued liabilities**. Without these adjustments, financial statements might **misrepresent the actual financial position of the business**.

12 **Answer: A) To transfer temporary account balances to permanent accounts**

Explanation:

Closing entries are made at the **end of an accounting period** to move balances from **temporary accounts (revenues, expenses, and withdrawals) to permanent accounts (retained earnings or capital)**. This ensures that each period starts with a clean slate for revenue and expense tracking. CAS automates this process, minimizing errors and ensuring **accurate financial reporting**.

13 **Answer: B) Income Statement**

Explanation:

The **Income Statement (Profit & Loss Statement)** reports **revenues, expenses, and net profit/loss** over a period (monthly, quarterly, annually). It helps businesses assess financial performance, track profitability, and make strategic decisions. The **Balance Sheet** shows financial position at a given date, while the **Cash Flow Statement** tracks cash inflows and outflows.

14 **Answer: A) It records financial transactions at the beginning of an accounting period**

Explanation:

An **Opening Entry** is the first entry in an accounting period, carrying forward **assets, liabilities, and equity** from the previous period. In a CAS, opening entries ensure continuity in accounting records. Without them, financial statements would **fail to reflect the accurate financial standing of the business**.

15 **Answer: A) Financial statements may contain incorrect balances**

Explanation:

Adjusting entries align financial statements with the **accrual basis of accounting**. If they are not recorded, revenues and expenses may be **understated or overstated**, leading to **incorrect profit calculations and misleading financial reports**. CAS ensures these entries are automated for accuracy.

16 **Answer: A) User authentication and access control**

Explanation:

Security in CAS ensures **only authorized users** access financial data. Features like **password protection, role-based access control, and encryption** prevent unauthorized modifications and data breaches. Strong security **safeguards confidential financial information** from cyber threats and fraud.

17 **Answer: A) It converts financial data into a secure format**

Explanation:

Encryption secures financial data by **converting it into unreadable formats** for unauthorized users. Only those with decryption keys can access and read the data. This prevents hacking, unauthorized access, and ensures **data confidentiality**.

18 **Answer: A) A detailed record of system activities and transactions**

Explanation:

An **audit trail** maintains a log of **all financial activities, changes, and user actions** within the system. This helps detect fraud, unauthorized modifications, and ensures **accountability in financial reporting**. It is a key security feature in CAS.

19 **Answer: A) It requires multiple verification steps for user access**

Explanation:

Multi-factor authentication (MFA) enhances security by **requiring additional verification steps** (such as OTP, biometric scans, or security questions) before granting access. This reduces the risk of unauthorized access and protects sensitive financial data.

20 **Answer: A) To restore data in case of system failure or cyberattack**

Explanation:

Regular backups ensure that **financial data can be recovered** in case of **system crashes, cyberattacks, or accidental deletions**. Cloud storage, external hard drives, and automated backup solutions **protect business continuity**.

21 **Answer: A) To assign a unique identification number to each account**

Explanation:

Codification in CAS refers to **assigning a systematic numerical or alphanumeric code** to each account. This helps in **easy identification, classification, and retrieval of accounts** while ensuring uniformity in financial records. For example, **1000-1999** could represent **assets**, while **2000-2999** might indicate **liabilities**. Codification enhances the efficiency of **report generation, data entry, and financial analysis** by reducing errors and ensuring consistency across different reports.

22 **Answer: A) To provide a structured list of all financial accounts used in an organization**

Explanation:

A **Chart of Accounts (COA)** is a predefined, structured list of all **accounts** used by an organization in its financial system. It includes categories like **Assets, Liabilities, Equity, Revenue, and Expenses**. In CAS, COA helps in **classifying financial transactions, ensuring systematic record-keeping, and generating accurate financial statements**. By organizing accounts hierarchically, businesses can easily **track financial activities, facilitate reporting, and ensure consistency in financial management**.

23 **Answer: A) It helps in organizing accounts based on their nature and usage**

Explanation:

A hierarchical **Chart of Accounts** arranges accounts into **main categories and subcategories**, making financial data more **organized and accessible**. For example, under **Assets**, there can be subcategories like **Current Assets (Cash, Receivables)** and **Fixed Assets (Land, Equipment)**. This hierarchy allows businesses to **track transactions accurately, improve reporting, and maintain clarity in financial statements**. A well-structured hierarchy is essential for **large organizations** dealing with multiple financial activities.

24 **Answer: A) To confirm the accuracy and consistency of entered data**

Explanation:

Data verification in CAS ensures that **entered financial data is accurate, complete, and consistent** before processing. It involves **cross-checking transactions with supporting documents, reconciling balances, and running system-generated validation checks**. Without proper verification, financial statements may contain errors, leading to incorrect decision-making. Businesses use techniques like **double-entry checks, reconciliation, and automated verification tools** to maintain data integrity and compliance with financial regulations.

25 **Answer: A) By implementing automated rules that check for errors in transactions**

Explanation:

Data validation in CAS involves **automated checks** that verify the correctness of transactions before they are recorded. These checks include **range validation (ensuring values fall within acceptable limits), format validation (correct number or date format), and logic validation (ensuring debit and credit balances match)**. If an error is detected, the system alerts users to correct it before proceeding. This feature reduces **financial discrepancies, ensures compliance with accounting standards, and enhances the reliability of financial statements**.

26 **Answer: A) To ensure that data entered is accurate and complete**

Explanation:

Data validation is a crucial feature in CAS that helps maintain **data accuracy, completeness, and consistency**. It includes checks like **format validation (ensuring correct data type), range validation (verifying values within allowed limits), and referential integrity (ensuring linked records exist)**. Without validation, incorrect data entry may lead to financial misstatements and errors.

27 **Answer: A) All related financial records remain consistent**

Explanation:

Referential integrity ensures that **all linked data remains accurate and consistent** within a CAS. For example, if an invoice references a customer ID, that customer ID must exist in the database. If referential integrity is not enforced, data inconsistencies and errors could arise, affecting financial reports and audits.

28 **Answer: A) Transposition error**

Explanation:

A **transposition error** occurs when numbers are **incorrectly swapped** during data entry (e.g., entering 215 instead of 251). This leads to incorrect calculations and financial misstatements. CAS includes **automated validation tools** to detect and correct such errors.

29 **Answer: A) By enabling unique record identifiers**

Explanation:

CAS prevents duplicate entries using **unique identifiers** like invoice numbers, transaction IDs, or customer codes. This ensures that each record appears only once, preventing errors and overstatement of financial transactions.

30 **Answer: A) It helps detect errors before transactions are processed**

Explanation:

Real-time validation checks entries as they are inputted, preventing **incorrect data from being processed**. This reduces errors, maintains data integrity, and ensures that financial reports reflect accurate information. It is a key feature in modern CAS.

31 **Answer: A) Preparation of financial statements**

Explanation:

The final step in CAS involves **generating financial statements**, including the **Income Statement, Balance Sheet, and Cash Flow Statement**. These reports provide an overview of the financial health of the business and are used for decision-making and regulatory compliance.

32 **Answer: A) It tracks changes and records user activities**

Explanation:

An **audit log** records all activities in CAS, including **user logins, data modifications, and financial transactions**. It helps in **fraud detection, error tracking, and compliance audits**. Maintaining an audit log ensures transparency and accountability in financial operations.

33 **Answer: A) To prevent unauthorized changes after finalization**

Explanation:

Locking accounting periods ensures **financial records remain unchanged** after statements are finalized. It prevents errors, fraud, and accidental modifications that could affect compliance and audits.

34 **Answer: A) It restricts access to sensitive financial data based on user roles**

Explanation:

RBAC assigns permissions based on user roles (e.g., **accountant, manager, auditor**), ensuring that only **authorized personnel** can access or modify specific financial data. This enhances security and prevents unauthorized changes.

35 **Answer: A) It automatically applies tax rates to transactions**

Explanation:

CAS includes **automated tax calculations**, applying the correct tax rates to transactions based on **predefined rules**. This ensures compliance with tax regulations, reduces manual errors, and streamlines tax reporting.

36 **Answer: A) Remote access and automatic updates**

Explanation:

Cloud-based CAS allows **users to access accounting data from anywhere** while ensuring **automatic software updates** for improved security and functionality. It reduces dependency on physical storage and enhances collaboration.

37 **Answer: A) To match system records with external records (e.g., bank statements)**

Explanation:

A reconciliation report helps businesses compare **internal accounting records with**

external sources, like **bank statements or supplier invoices**. This ensures that financial data is accurate and up to date.

38 **Answer: A) Login activity monitoring**

Explanation:

Login activity monitoring tracks **failed and successful login attempts**, helping detect unauthorized access attempts. If suspicious activity is found, security alerts notify administrators to take preventive action.

39 **Answer: A) To verify that total debits and credits match**

Explanation:

A **trial balance** is a fundamental accounting report that checks if **total debits equal total credits** in the ledger. Any imbalance indicates errors that must be corrected before finalizing financial statements.

40 **Answer: A) By implementing user authentication, backups, and encryption**

Explanation:

Businesses protect CAS by using **passwords, encryption, multi-factor authentication, regular backups, and audit logs** to prevent **data breaches, unauthorized modifications, and financial fraud**.