Accounting Information Systems Connecting Careers Systems and Analytics 1st edition Savage Test Bank

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Accounting Information Systems, 1e **(Savage)**
Chapter 2 Risks and Risk Assessments

1) _____ is propelling massive and fast-paced changes in how businesses function.
A) Technology
B) Accounting
C) Sales
D) Service
Answer: A
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Systems and Process Management

2) Internal audit departments perform formal risk assessments when
A) using technology.
B) creating audit plans.
C) preparing financial statements.
D) preparing budgets.
Answer: B
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Introduction
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Bloom's: Application
AICPA: AC: Systems and Process Management

3) Financial accountants implement controls including _____ to address risk.
A) technology
B) general guidelines
C) specific procedures
D) operational perspective
Answer: C
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Introduction
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4) Choose the best description of risk.
A) The estimation of damage that could be caused
B) The estimated probability of occurrence
C) The high-level business area or department
D) The likelihood of an unfavorable event occurring
Answer: D
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
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Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

5) A risk-aware culture at a business is characterized by
A) leadership setting a risk-awareness tone at the top.
B) management that encourages employees to discuss risks openly.
C) an alignment of risks across all corporate initiatives.
D) all the above.
Answer: D
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
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Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

6) Organize the three tasks below when performing risk assessment.
A) Identify, categorize and prioritize
B) Prioritize, identify and categorize
C) Categorize, prioritize and identify
D) Identify, prioritize and categorize
Answer: A
Diff: 3
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
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7) The three primary types of business processes that make up a basic business model include
A) acquisition and payment processes.
B) conversion processes.
C) marketing, sales and collection processes.
D) all the above.
Answer: D
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
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Bloom's: Comprehension
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8) A business function is a high-level _____ or _____ that performs business processes to achieve company goals.
A) Business area, customer
B) Business area, department
C) Vendor, department
D) Vendor, customer
Answer: B
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
AACSB: Analytic
Bloom's: Comprehension
AICPA: AC: Systems and Process Management

9) A business function is a high-level business area or department that performs _____ to achieve company goals.
A) financial statement reporting
B) auditing
C) business processes
D) information technology
Answer: C
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
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10) A business function is a high-level business area or department that performs business processes to achieve
A) accounting goals.
B) revenue.
C) profit.
D) company goals.
Answer: D
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
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11) Just as risk can exist at different levels, _____ can be performed at different levels of the company.
A) risk identification
B) risk statements
C) likelihood
D) impact
Answer: A
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

12) Just as risk can exist at different levels, risk identification can be performed at _____ of the company.
A) the top-level
B) different levels
C) the bottom level
D) the board of directors' level
Answer: B
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
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13) Choose from the following the best description of enterprise risk management (ERM).
A) A narrow process of identifying, categorizing, prioritizing, and ignoring a company's risk
B) A narrow process of identifying, grouping, prioritizing, and ignoring a company's risk
C) A comprehensive process of identifying, categorizing, prioritizing, and responding to a company's risk
D) A comprehensive process of listing, prioritizing, and responding to a company's risk
Answer: C
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
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14) Choose from the following the best definition of risk identification.
A) Decide how the company will address the prioritized risks
B) Select which risks are most likely to occur or will have the largest impact
C) Categorizing risks based on their types
D) Identifying existing risks and their outcomes
Answer: D
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
AACSB: Analytic
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15) Choose from the following the best definition of risk response.
A) Decide how the company will address the prioritized risks
B) Select which risks are most likely to occur or will have the largest impact
C) Categorizing risks based on their types
D) Identifying existing risks and their outcomes
Answer: A
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
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16) Choose from the following the best definition of risk prioritization.
A) Decide how the company will address the prioritized risks
B) Select which risks are most likely to occur or will have the largest impact
C) Categorizing risks based on their types
D) Identifying existing risks and their outcomes
Answer: B
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
AACSB: Analytic
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AICPA: AC: Risk Assessment, Analysis, and Management

17) Choose from the following the best definition of risk categorization.
A) Decide how the company will address the prioritized risks
B) Select which risks are most likely to occur or will have the largest impact
C) Categorizing risks based on their types
D) Identifying existing risks and their outcomes
Answer: C
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
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18) A risk statement contains two parts
A) the improvement and the solution.
B) the improvement and the possible outcome.
C) the issue and the solution.
D) the issue and the possible outcome.
Answer: D
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Identifying Risks
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19) Complete the following statement: A company that takes on significant risk may have a(an) _____ over a company that avoids risk.
A) competitive advantage
B) unambitious advantage
C) competitive handicap
D) significant cost advantage
Answer: A
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
AACSB: Analytic
Bloom's: Application
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20) What are some common keywords used in risk statements?
A) Because
B) Caused
C) Possible
D) All the above
Answer: D
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Identifying Risks
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

21) Complete the following statement: "It is essential for accounting professionals to understand risk — including _____ in risk management.
A) emerging trends
B) gradual trends
C) emerging directions
D) gradual directions
Answer: A
Diff: 1
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Introduction
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22) The second step of ERM is
A) categorizing risks based on their type.
B) identifying risks.
C) responding to a company's risk.
D) categorizing risks based on response.
Answer: A
Diff: 1
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Introduction
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23) An accountant would call the categorization of a risk, external or internal, the _____ of the risk.
A) solution
B) source
C) explanation
D) level
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Introduction
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

24) Complete the following statement: "Identified risks are most useful when they are mapped to
A) external risks."
B) internal risks."
C) one source category."
D) both internal and external categories."
Answer: C
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Introduction
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25) Complete the following statement: "If a risk feels like it can be classified as both internal and external, companies fine-tune their risk statement to make it more _____ until it maps clearly to one source".
A) soft
B) hard
C) smooth
D) granular
Answer: D
Diff: 1
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Introduction
AACSB: Analytic
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26) How many major internal risk categories are there?
A) 3
B) 4
C) 5
D) 6
Answer: A
Diff: 1
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

27) Choose from the following list a major internal risk category.
A) Compliance risk
B) Financial risk
C) Strategic risk
D) Physical risk
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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28) Choose from the following list a major internal risk category.
A) Compliance risk
B) Strategic risk
C) Operational risk
D) Physical risk
Answer: C
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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29) Choose from the following list a major internal risk category.
A) Compliance risk
B) Strategic risk
C) Physical risk
D) Reputational risk
Answer: D
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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30) Choose from the following list the most important type of risk for an AIS.
A) Operational risk
B) Financial risk
C) Strategic risk
D) Physical risk
Answer: A
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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31) Choose from the following list the best definition of technology risk.
A) When technology failures have the potential of improving business
B) When technology failures have the potential of disrupting business
C) When technology is deployed to solve business problems
D) When technology is removed from business operations
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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32) Choose from the following list the best definition of cyber risks.
A) A common type of technology risk relating to an internal party accessing the company's financial records
B) When technology failures have the potential of disrupting business
C) A unique type of technology risk relating to an external party accessing the company's technology assets
D) When technology is removed from business operations
Answer: C
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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33) Choose from the following list the best definition of financial risk.
A) Causes a breakdown in business operations
B) When the good name of a company is damaged
C) Refers to the potential gain of a substantial sum of money
D) Refers to the potential loss of a substantial sum of money
Answer: D
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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34) Choose from the following list the best definition of reputational risks.
A) Causes a breakdown in business operations
B) When the good name of a company is damaged
C) Refers to the potential gain of a substantial sum of money
D) Refers to the potential loss of a substantial sum of money
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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35) With reputational risk comes financial loss through a(n)
A) loss of customers and revenue.
B) decrease in expenses.
C) increase in stock price.
D) increase in customers and revenues.
Answer: A
Diff: 1
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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36) Why has reputation risk grown in importance?
A) Fewer people are shopping in stores.
B) Fewer people are shopping on-line.
C) More people are using and accessing social media.
D) More people are shopping on-line.
Answer: C
Diff: 1
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37) Choose from the following list a major external risk category.
A) Compliance risk
B) Operational risk
C) Financial risk
D) Reputational risk
Answer: A
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
AACSB: Analytic
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38) Choose from the following list a major external risk category.
A) Operational risk
B) Strategic risk
C) Financial risk
D) Reputational risk
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

39) Choose from the following list a major external risk category.
A) Operational risk
B) Financial risk
C) Physical risk
D) Reputational risk
Answer: C
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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40) Choose from the following list the best definition of compliance risk.
A) Causes a breakdown in business operations
B) The threat of adverse weather, crimes, or physical damage
C) Is the inevitable risk that comes from a strategy becoming less effective
D) It occurs when a company fails to follow regulation and legislation and is subjected to legal penalties, including fines.
Answer: D
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
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41) Choose from the following list the best definition of strategic risk.
A) Causes a breakdown in business operations
B) The threat of adverse weather, crimes, or physical damage
C) Is the inevitable risk that comes from a strategy becoming less effective
D) It occurs when a company fails to follow regulation and legislation and is subjected to legal penalties, including fines.
Answer: C
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
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42) In September 2000, the CEO of Blockbuster was given the option to purchase Netflix for $50 million. At the time, Netflix was losing money and worried about bankruptcy. The Blockbuster CEO turned down the opportunity. This is an example of what type of risk?
A) Strategic risk
B) Compliance risk
C) Physical risk
D) Operational risk
Answer: A
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
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43) Choose from the following list the best definition of physical risk.
A) Causes a breakdown in business operations
B) The threat of adverse weather, crimes, or physical damage
C) Is the inevitable risk that comes from a strategy becoming less effective
D) It occurs when a company fails to follow regulation and legislation and is subjected to legal penalties, including fines.
Answer: B
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
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AICPA: AC: Risk Assessment, Analysis, and Management

44) While _____ is the easiest to understand, it is one of the most important types of risk a company identifies because the impact is usually high.
A) strategic risk
B) compliance risk
C) physical risk
D) operational risk
Answer: C
Diff: 1
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: External Risks
AACSB: Analytic
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AICPA: AC: Risk Assessment, Analysis, and Management

45) Choose from the following list the best definition of a risk inventory.
A) Causes a breakdown in business operations
B) The threat of adverse weather, crimes, or physical damage
C) Is the inevitable risk that comes from a strategy becoming less effective
D) A listing of all the business' known risks
Answer: D
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
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46) Founded in 1852, Wells Fargo is one of the largest banks in the United States. When internal fraud at Wells Fargo was exposed to the public in September 2016, what type of risk was increased at Wells Fargo due to this fraud?
A) Reputational risk
B) Compliance risk
C) Physical risk
D) Operational risk
Answer: A
Diff: 2
Learning Objective: 2.2 Classify risks into different risk categories
Section Reference: Internal Risks
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47) Choose the best definition of risk severity from the list below.
A) It is the likelihood of risks occurring and the potential impact on the company.
B) It is the estimated probability of a risk occurrence.
C) It is the estimation of damage that could be caused if the risk occurs.
D) It is an estimation of the loss of goodwill.
Answer: A
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

48) Choose the best definition of likelihood from the list below.
A) Prioritizes risks by ranking their likelihood of occurring and the potential impact on the company
B) It is the estimated probability of a risk occurrence.
C) It is the estimation of damage that could be caused if the risk occurs.
D) It is an estimation of the loss of goodwill.
Answer: B
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
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49) Choose the best definition of impact from the list below.
A) Prioritizes risks by ranking their likelihood of occurring and the potential impact on the company
B) It is the estimated probability of a risk occurrence.
C) It is the estimation of damage that could be caused if the risk occurs.
D) It is an estimation of the loss of goodwill.
Answer: C
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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50) Complete the following sentence: "Companies use different methods to calculate likelihood, but likelihood is always ranked on a
A) fixed level."
B) sliding level."
C) fixed scale."
D) sliding scale."
Answer: D
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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51) Complete this sentence: "In different industries, likelihood can be described as
A) probability."
B) scarcity."
C) insufficient."
D) abundant."
Answer: A
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
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52) What is the abbreviation for Medium High?
A) MH
B) M
C) ML
D) H
Answer: A
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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53) What is the abbreviation for High?
A) MH
B) M
C) ML
D) H
Answer: D
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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54) What is the abbreviation for Medium Low?
A) MH
B) M
C) ML
D) H
Answer: C
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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55) What is the abbreviation for Low?
A) MH
B) L
C) ML
D) H
Answer: B
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
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56) What is the abbreviation for Medium?
A) M
B) L
C) ML
D) H
Answer: A
Diff: 1
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Evaluating Risk Severity
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

57) What is the risk calculation if a company assigns a likelihood of 4 to a particular risk and an impact of 3 to the risk?
A) 7
B) 12
C) 4
D) 3
Answer: B
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
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58) What is the risk calculation if a company assigns a likelihood of 1 to a particular risk and an impact of 5 to the risk?
A) 1
B) 3
C) 5
D) 6
Answer: C
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
AACSB: Analytic
Bloom's: Application
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59) If a company identifies four risks with a risk score as follows:

Risk	Risk Score
An oven fire may result in the destruction of a store.	5
A cybersecurity attack may result in the theft of customer data.	15
A store employee getting sick may result in them backing out of their shift last minute.	4
An employee stealing from a cash register may result in loss of cash.	6

Which risk is the highest priority?
A) An oven fire may result in the destruction of a store.
B) A cybersecurity attack may result in theft of customer data.
C) A store employee getting sick may result in them backing out of their shift last minute.
D) An employee stealing from a cash register may result in loss of cash.
Answer: B
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
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60) If a company identifies four risks with a risk score:

Risk	Risk Score
An oven fire may result in the destruction of a store.	5
A cybersecurity attack may result in the theft of customer data.	15
A store employee getting sick may result in them backing out of their shift last minute.	4
An employee stealing from a cash register may result in loss of cash.	6

Which risk is the lowest priority?
A) An oven fire may result in the destruction of a store.
B) A cybersecurity attack may result in theft of customer data.
C) A store employee getting sick may result in them backing out of their shift last minute.
D) An employee stealing from a cash register may result in loss of cash.
Answer: C
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

61) Choose the best definition of risk matrices from the list below.
A) Risk matrices give a clear picture through the assignment of values to the data.
B) Risk matrices are the estimated probability of a risk occurrence.
C) Risk matrices are the estimation of damage that could be caused if the risk occurs.
D) Risk matrices are an estimation of the loss of goodwill.
Answer: A
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

62) Choose the best definition of a heat map from the list below.
A) A heat map is the estimated probability of a risk occurrence.
B) A heat map uses different colors to represent values of data in a map or diagram format.
C) A heat map is the estimation of damage that could be caused if the risk occurs.
D) A heat map is an estimation of the loss of goodwill.
Answer: B
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
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Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

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63) Referencing the following risk scale:

Risk Level	Likelihood Score	Category	Annual Occurrence Percentage
High	5	Imminent	> 15%
Medium High	4	Probable	10–15%
Medium	3	Reasonably Possible	5–10%
Medium Low	2	Unlikely	2.5–5%
Low	1	Rare	< 2.5%

What likelihood score would you assign to a risk with an annual occurrence of 7%?
A) 1
B) 2
C) 3
D) 4
Answer: C
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

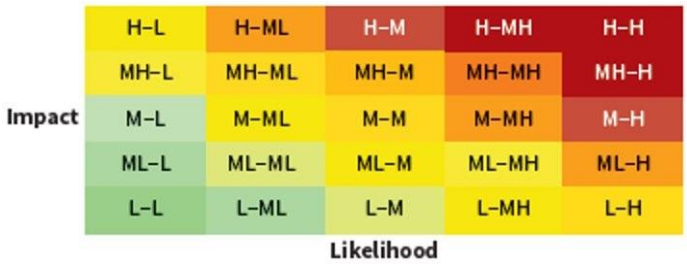
64) Referencing the following risk scale:

Risk Level	Likelihood Score	Category	Annual Occurrence Percentage
High	5	Imminent	> 15%
Medium High	4	Probable	10–15%
Medium	3	Reasonably Possible	5–10%
Medium Low	2	Unlikely	2.5–5%
Low	1	Rare	< 2.5%

What likelihood score would you assign to a risk with an annual occurrence of 3%?
A) 1
B) 2
C) 3
D) 4
Answer: B
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

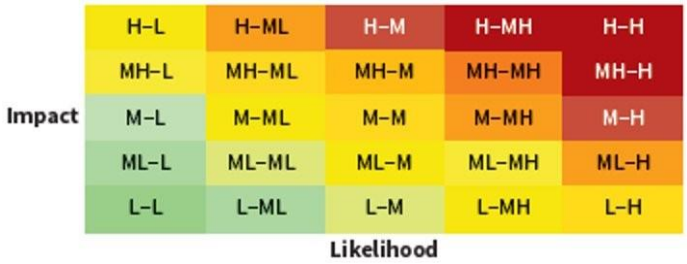
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65) Consider the following risk matrix.



What score would a risk have with an impact of M and a likelihood of L?
A) 3
B) 4
C) 6
D) 8
Answer: A
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

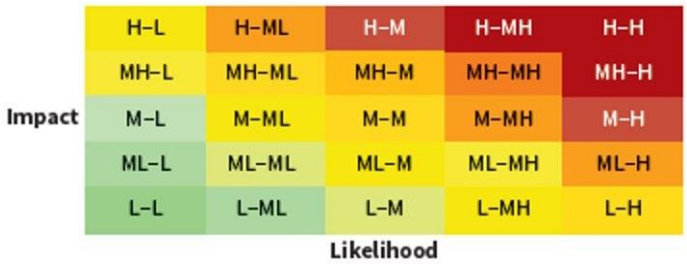
66) Consider the following risk matrix.



What score would a risk have with an impact of M and a likelihood of H?
A) 3
B) 5
C) 15
D) 16
Answer: C
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

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67) Consider the following risk matrix.



What score would a risk have with an impact of M and a likelihood of M?
A) 3
B) 6
C) 8
D) 9
Answer: D
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

68) If a company identifies four risks with a risk scores as follows:

Risk	**Risk Score**
An oven fire may result in the destruction of a store.	5
A cybersecurity attack may result in the theft of customer data.	15
A store employee getting sick may result in them backing out of their shift last minute.	4
An employee stealing from a cash register may result in loss of cash.	6

How would you suggest the management of the company prioritize the identified risks?
Answer: Answers may vary. However, most companies prioritize the risks by first taking the highest risk score and working down from there.
Diff: 3
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Using Risk Formulas
AACSB: Analytic
Bloom's: Synthesis
AICPA: AC: Risk Assessment, Analysis, and Management

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69) How can someone determine how risky a risk is?
Answer: The answer will vary depending on the industry of the business. In the software industry, the biggest risks are probably technology risks since software supports the business and is also the company's product. In farming, the physical risk may be of the most serious concern. Adverse weather could destroy entire crops of produce and put a farm out of business.
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

70) The U.S. Bureau of Labor and Statistics anticipates a _____ percent growth in jobs with the focus of "risk management" between 2018-2026.
A) 10
B) 15
C) 18
D) 19
Answer: D
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

71) Accounting professionals are uniquely qualified to work in risk management due to their training in _____, risk identification, and _____.
A) budgeting, financial statement preparation
B) business processes, tax preparation
C) business processes, holistic business operations
D) tax preparation, holistic business operations
Answer: C
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

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72) What is the first step of ERM?
A) Risk Identification
B) Risk Categorization
C) Risk Prioritization
D) Risk Response
Answer: A
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

73) What is the second step of ERM?
A) Risk Identification
B) Risk Categorization
C) Risk Prioritization
D) Risk Response
Answer: B
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

74) What is the third step of ERM?
A) Risk Identification
B) Risk Categorization
C) Risk Prioritization
D) Risk Response
Answer: C
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
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75) What is the last step of ERM?
A) Risk Identification
B) Risk Categorization
C) Risk Prioritization
D) Risk Response
Answer: D
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

76) Choose the best definition of risk appetite from the list below.
A) Risk appetite is the amount of risk a company is willing to take on at that time.
B) Risk appetite uses different colors to represent values of data in a map or diagram format.
C) Risk appetite is the estimation of damage that could be caused if the risk occurs.
D) Risk appetite is an estimation of the loss of goodwill.
Answer: A
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

77) Choose the phrase that most accurately completes this sentence. "Risk appetite is part of
A) a weak manager."
B) a company's culture."
C) a satisfied customer."
D) a strong employee."
Answer: B
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Introduction
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

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78) Choose the best definition of inherent risk.
A) Inherent risk is the risk to a business process of a cybersecurity leak.
B) Inherent risk is the remaining risk posed by a process or activity once a plan to respond to the risk is in place.
C) Inherent risk is the natural level of risk in a business process if there are no risk responses in place.
D) Inherent risk is the risk to a business process of a natural disaster, such as a fire or earthquake.
Answer: C
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

79) Inherent risks consist of two parts: _____ and _____.
A) severity, financial
B) severity, impact
C) likelihood, financial
D) likelihood, impact
Answer: D
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

80) Choose the best definition of residual risk.
A) Residual risk is the risk to a business process of a cybersecurity leak.
B) Residual risk is the remaining risk posed by a process or activity once a plan to respond to the risk is in place.
C) Residual risk is the natural level of risk in a business process if there are no risk responses in place.
D) Residual risk is the risk to a business process of a natural disaster, such as a fire or earthquake.
Answer: B
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

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81) Choose the best definition of target residual risk.
A) Target residual risk is the risk to a business process of a cybersecurity leak.
B) Target residual risk is the natural level of risk in a business process or activity if there are no risk responses in place.
C) Target residual risk is the goal after implementing a risk response.
D) Target residual risk is what happens after the risk is addressed.
Answer: C
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

82) Choose the best definition of actual residual risk.
A) Actual residual risk is the risk to a business process of a cybersecurity leak.
B) Actual residual risk is the natural level of risk in a business process or activity if there are no risk responses in place.
C) Actual residual risk is the goal after implementing a risk response.
D) Actual residual risk is what happens after the risk is addressed.
Answer: D
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

83) If a construction worker purchases a heavy-duty case to protect his cell phone and reduces the risk likelihood from a 3 to a 2 and the risk impact from a 4 to a 3, by what percent is the risk score reduced?
A) 50%
B) 100%
C) 25%
D) 33%
Answer: A
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Assess the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

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84) Choose the best definition of risk acceptance.
A) Risk acceptance is when an inherent risk is present, but the organization chooses not to act.
B) Risk acceptance eliminates the risk by completely avoiding the events causing the risk.
C) Risk acceptance is when a company decides to accept the risk but to minimize its impact if it occurs.
D) Risk acceptance is the shifting of the risk to a third party.
Answer: A
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

85) Choose the best definition of risk avoidance.
A) Risk avoidance is when an inherent risk is present, but the organization chooses not to act.
B) Risk avoidance eliminates the risk by completely avoiding the events causing the risk.
C) Risk avoidance is when a company decides to accept the risk but to minimize its impact if it occurs.
D) Risk avoidance is the shifting of the risk to a third party.
Answer: B
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

86) Choose the best definition of mitigating the risk.
A) Mitigating the risk is when an inherent risk is present, but the organization chooses not to act.
B) Mitigating the risk eliminates the risk by completely avoiding the events causing the risk.
C) Mitigating the risk is when a company decides to minimize its impact if it occurs through additional business processes or controls.
D) Mitigating the risk is the shifting of the risk to a third party.
Answer: C
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

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87) Choose the best definition of risk transfer.
A) Risk transfer is when an inherent risk is present, but the organization chooses not to act.
B) Risk transfer eliminates the risk by completely avoiding the events causing the risk.
C) Risk transfer is when a company decides to accept the risk but to minimize its impact if it occurs.
D) Risk transfer is the shifting of the risk to a third party.
Answer: D
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

88) How are you responding to the risk if you purchase a new cell phone and choose not to purchase a phone protection plan?
A) Accept the risk
B) Avoid the risk
C) Mitigate the risk
D) Transfer the risk
Answer: A
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

89) If a company closes stores in a particularly high-risk geographical location, how are they responding to the risk?
A) Accept the risk
B) Avoid the risk
C) Mitigate the risk
D) Transfer the risk
Answer: B
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

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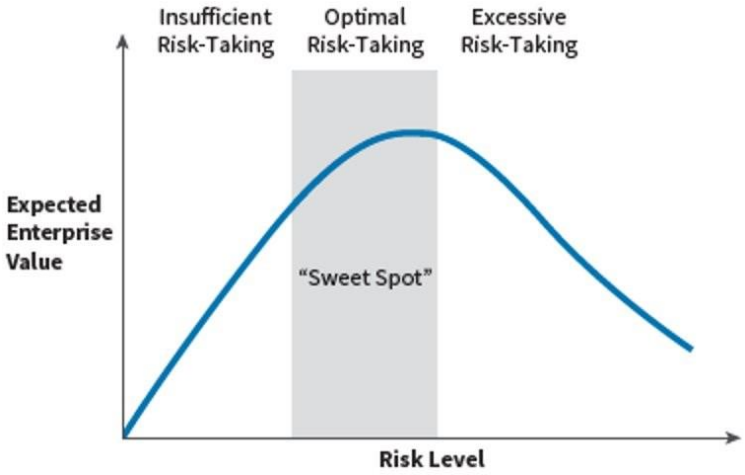
90) How are you responding to the risk if you purchase a new cell phone and later purchase a screen protector and phone case?
A) Accept the risk
B) Avoid the risk
C) Mitigate the risk
D) Transfer the risk
Answer: C
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

91) How are you responding to the risk if you purchase a new cell phone and purchase the phone protection insurance?
A) Accept the risk
B) Avoid the risk
C) Mitigate the risk
D) Transfer the risk
Answer: D
Diff: 2
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

92) How many types of risk response are there?
A) 4
B) 3
C) 5
D) 6
Answer: A
Diff: 1
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Knowledge
AICPA: AC: Risk Assessment, Analysis, and Management

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93) Consider the following diagram:



What is the sweet spot?
Answer: The sweet spot is the optimal level of risk-taking that yields enough value to make it worth taking the risk.
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

94) Julia's Cookies hires delivery drivers of any age with a state-issued driver's license. Newly hired drivers have one day of training on how to provide the best customer experience. It does not include driver safety training. Delivery drivers use company vehicles. Assess risks related to Julia's Cookies' delivery drivers.
Answer: Answers may vary, but one risk would be that drivers do not receive safety training from Julia's Cookies.
Diff: 3
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Applying Risks to a Business
AACSB: Analytic
Bloom's: Evaluation
AICPA: AC: Risk Assessment, Analysis, and Management

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95) Predict at least one of the outcomes from the following risk statement related to driver safety at Julia's Cookies: "Drivers not receiving road safety training."
Answer: Possible answers include: Injuries to drivers and others in an accident, Damages to company vehicles, Julia's Cookies earning a bad reputation, and Julia's Cookies paying monetary fines and damages in lawsuits from victims of accidents.
Diff: 3
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Identifying Risks
AACSB: Analytic
Bloom's: Evaluation
AICPA: AC: Risk Assessment, Analysis, and Management

96) Briefly discuss the importance of risk.
Answer: Anything that can hinder a business's success in achieving its goals or cause a loss is an unfavorable event, and risk is the likelihood of an unfavorable event occurring.
Diff: 2
Learning Objective: 2.1 Describe the nature of risk
Section Reference: Importance of Risk
AACSB: Analytic
Bloom's: Application
AICPA: AC: Risk Assessment, Analysis, and Management

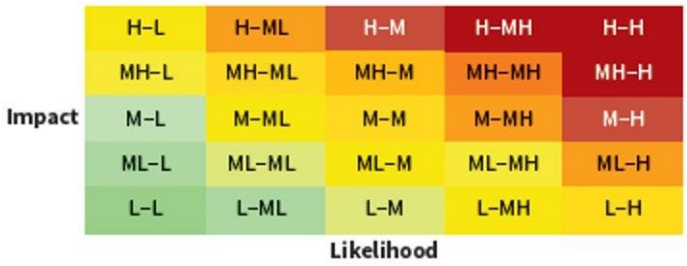
97) Consider the following risk matrix.

Impact					
	H–L	H–ML	H–M	H–MH	H–H
	MH–L	MH–ML	MH–M	MH–MH	MH–H
	M–L	M–ML	M–M	M–MH	M–H
	ML–L	ML–ML	ML–M	ML–MH	ML–H
	L–L	L–ML	L–M	L–MH	L–H
			Likelihood		

What score would a risk have with an impact of MH and a likelihood of ML?
Answer: 8
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

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98) Consider the following risk matrix.



What score would a risk have with an impact of MH and a likelihood of H?
Answer: 20
Diff: 2
Learning Objective: 2.3 Determine the quantitative value of risk
Section Reference: Creating Risk Matrices
AACSB: Analytic
Bloom's: Analysis
AICPA: AC: Risk Assessment, Analysis, and Management

99) Julia's Cookies is concerned about customers being injured while shopping in their stores. What actions could Julia's Cookies take to transfer the risk?
Answer: Answers will vary. One answer is that Julia's cookies could purchase a general liability insurance policy to transfer the risk of customers being injured in their store to an insurance company.
Diff: 3
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Synthesis
AICPA: AC: Risk Assessment, Analysis, and Management

100) Julia's Cookies is concerned about drivers being injured when delivering cookies. What actions could Julia's Cookies take to mitigate the risk?
Answer: Answers will vary. One answer is that Julia's Cookies could provide driver safety training to its drivers.
Diff: 3
Learning Objective: 2.4 Explain how businesses respond to risk
Section Reference: Respond to the Risk
AACSB: Analytic
Bloom's: Synthesis
AICPA: AC: Risk Assessment, Analysis, and Management

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