CONTENTS

PART 1 UNDERSTANDING INFORMATION **SYSTEMS**

1 Introduction to Accounting **Information Systems 1**

Synopsis 2 Introduction 3 The Textbook's Three Themes 3 Beyond Debits and Credits 4 Legal Issues Impacting Accountants 5

Components of the Study of AIS 7

What Is an Accounting Information System? 11

Systems and Subsystems 11

The Information System (IS) 13 The Accounting Information System

Logical Components of a Business Process 14

Management Uses of Information 16

Data versus Information 17 Qualities of Information 17

Management Decision Making 22

The Accountant's Role in the Current

Business Environment 26

Summary 27

Key Terms 28

Review Questions 28

Discussion Questions 28

Problems 29

2 Enterprise Systems 31

Synopsis 32 Introduction 32

Enterprise Resource Planning (ERP)

Systems 33

Enterprise Systems Value Chain 39

The Value of Systems Integration 43

The Problem 43

The Solution 45

Additional Value 45

Enterprise Systems Support for Organizational Processes 46

Capturing Data During Business

Processes 46

Enterprise Systems Facilitate Functioning of the Organization's Operations 46 Enterprise Systems Record That Business

Events Have Occurred 48

Enterprise Systems Store Data

for Decision Making 49

Major ERP Modules 50

Sales and Distribution 50

Materials Management 51

Financial Accounting 51

Controlling and Profitability Analysis 51

Human Resources 51

Enterprise Systems Support for Major

Business Event Processes 52

Order-to-Cash 52

Purchase-to-Pay 54

Summary 57

Key Terms 59

Review Questions 59

Discussion Questions 60

Problems 60

3 Electronic Business (E-Business) Systems 62

Synopsis 63

Introduction 64

Applying E-Business to the Value Chain 65

The Changing World of Business

Processing 66

A Comparison of Manual and Automated

Accounting Information Systems 66 Automating an Accounting Information

System 70

Online Transaction Entry (OLTE) 72

Online Real-Time (OLRT) Processing 74

Methods for Conducting E-Business 76

Commerce Through E-Mail 77

Electronic Document Management 78

Electronic Data Interchange 80

Internet Commerce 87

Summary 93

Key Terms 94

Review Questions 95

Discussion Ouestions 95

Problems 96

PART 2 **ORGANIZING AND MANAGING** INFORMATION

4 Documenting Information Systems 98

Synopsis 99 Introduction 99

Reading Systems Documentation Reading Data Flow Diagrams 100 Reading Systems Flowcharts 105 Preparing Systems Documentation 110 Preparing Data Flow Diagrams 110 The Narrative 110 Table of Entities and Activities 111 Drawing the Context Diagram 113 Drawing the Current Logical Data Flow Diagram 117 Preparing Systems Flowcharts 121 Drawing Systems Flowcharts 122 Documenting Enterprise Systems 126 Summary 128 Key Terms 128 Review Questions 128 Discussion Questions 129 Problems 129

5 Database ManagementSystems 135

Review Questions 168

Problems 170

Discussion Questions 169

Synopsis 136 Introduction 136 Two Approaches to Business Event Processing 136 The Applications Approach to Business Event Processing 137 The Database Approach to Business Event Processing 139 Databases and Business Events 139 Database Management Systems 140 Logical versus Physical Database Models 140 Overcoming the Limitations of the Applications Approach Database Essentials 145 Logical Database Models 145 Elements of Relational Databases 147 Normalization in Relational Databases 148 Using Entity-Relationship Models 155 Using DBMS and Intelligent Systems to AID Decision Makers 160 Decision Support Systems, Executive Information Systems, and Group Support Systems 161 Expert Systems 161 Intelligent Agents 165 Knowledge Management 167 Storing Knowledge in Data Warehouses 167 Summary 167 Key Terms 168

6 Relational Databases and SQL 176

Synopsis 177 Introduction 177 REA Modeling 177 Entities and Attributes 177 Relationships 181 Model Constraints 182 REA Data Models and E-R Diagrams 184 Relational Databases 186 Relational Database Concepts 186 Mapping an REA Model to a Relational DBMS 187 SQL: A Relational Database Query Language 191 Constructing Relational Databases 193 Updating the Database 194 Basic Querying Commands 196 Generating Standard Reports 198 Summary 201 Key Terms 201 Review Questions 201 Discussion Questions 202 Problems 203

PART 3 ENTERPRISE RISK MANAGEMENT

7 Controlling Information Systems: Introduction to Enterprise Risk Management and Internal

Control 206 Synopsis 207 Organizational Governance 207 Enterprise Risk Management 208 Sarbanes-Oxley Act 212 Defining Internal Control 216 The COSO Definition of Internal Control 216 Working Definition of Internal Control 218 Fraud and Its Relationship to Control 221 Implications of Computer Fraud and Abuse 222 Ethical Considerations and the Control Environment 224 A Framework for Assessing the Design of a System of Internal Control 226 Control Goals of Operations Processes 228 Control Goals of Information Processes 228 Control Plans 232 Summary 235 Key Terms 235

Review Questions 236

Discussion Questions 236 Problems 237

8 Controlling Information Systems: Introduction to Pervasive and General Controls 243

Synopsis 245 Introduction 245

A Hypothetical Computer System 247

The Information Systems

Organization 248

Four Broad IT Control Process

Domains 249

Plan and Organize Domain 252

IT Process 1: Establish Strategic Vision for

Information Technology 252

IT Process 2: Develop Tactics to Plan, Communicate, and Manage Realization of

the Strategic Vision 253

Acquire and Implement Domain 260

IT Process 3: Identify Automated

Solutions 261

IT Process 4: Develop and Acquire IT

Solutions 261

IT Process 5: Integrate IT Solutions into

Operational Processes 262

IT Process 6: Manage Changes to Existing

IT Systems 262

Deliver and Support Domain 263

IT Process 7: Deliver Required IT

Services 263

IT Process 8: Ensure Security and

Continuous Service 264

IT Process 9: Provide Support

Services 272

Monitor and Evaluate Domain 272

IT Process 10: Monitor and Evaluate the

Processes 272

Summary 273

Key Terms 274

Review Questions 274

Discussion Questions 275

Problems 276

9 Controlling Information Systems:Business Process and ApplicationControls 284

Synopsis 285

Introduction 285

The Control Framework 285

The Control Matrix 285

Steps in Preparing the Control

Matrix 287

Sample Control Plans for Data Input 292

Control Plans for Manual and Automated

Data Entry 294

System Description and Flowchart 294

Applying the Control Framework 295

Control Plans for Data Entry with

Batches 300

System Description and Flowchart 300

Applying the Control Framework 302

Summary 311

Key Terms 312

Appendix 9A 312

Data Encryption and Public Key

Cryptography 312

Review Questions 317

Discussion Questions 317

Problems 318

PART 4 BUSINESS PROCESSES

10 The Order Entry/Sales (OE/S) Process 328

Synopsis 329

Introduction 329

Process Definition and Functions 330

Organizational Setting 330

A Horizontal Perspective 330

A Vertical Perspective 332

Managing the OE/S Process: Satisfying

Customer Needs 333

Decision Making and Kinds of

Decisions 334

Using Data Mining to Support

Marketing 334

Mastering Global E-Business 335

Customer Relationship Management (CRM)

Systems 337

Logical Description of the OE/S Process 339

Logical Data Flow Diagrams 339

Logical Data Descriptions 346

Logical Database Design 347

Physical Description of the OE/S Process 350

Electronic Data Capture 350

Digital Image Processing 350

The OE/S Process 351

Management Reporting 353

Application of the Control Framework 354

Control Goals 354

Recommended Control Plans 355

Summary 362

Key Terms 363

Review Questions 363

Discussion Questions 364

Problems 365

xxii Contents

11 The Billing/Accounts Receivable/Cash Receipts (B/AR/CR) Process 374

Synopsis 375 Introduction 375 Organizational Setting 376 Using Technology to Optimize Cash Resources 378

The Fraud Connection 381 Logical Process Description 382

Logical Data Flow Diagrams 382 Logical Data Descriptions 388

Logical Database Design 390

Types of Billing Systems 394

Physical Process Description of the Billing

Function 394

The Billing Process 394

Selected Process Outputs 396

Application of the Control Framework for the Billing Function 396

Control Goals 396

Recommended Control Plans 398

Physical Process Description of the Cash

Receipts Function 400

Application of the Control Framework for the Cash Receipts Function 401

Control Goals 403

Recommended Control Plans 404

Summary 406

Key Terms 408

Review Questions 408

Discussion Questions 409

Problems 409

12 The Purchasing Process 419

Synopsis 420

Introduction 420

Process Definition and Functions 420

Organizational Setting 421

An Internal Perspective 421

Organizational Setting and Possible Goal

Conflicts 421

An External Perspective 423

Logical Process Description 428

Discussion and Illustration 428

Logical Data Descriptions 436

Logical Database Design 436

Technology Trends and Developments 439

Physical Process Description 439

Discussion and Illustration 44

The Fraud Connection 445

Application of the Control Framework to

Purchasing 446

Control Goals 446

Recommended Control Plans 447 Summary 452

Key Terms 454

Review Ouestions 454

Discussion Questions 455

Problems 455

13 The Accounts Payable/Cash Disbursements (AP/CD) Process 462

Synopsis 463

Introduction 463

Process Definition and Functions 463

Organizational Setting 464

A Horizontal Perspective 464

A Vertical Perspective 465

Logical Process Description 467

Discussion and Illustration 467

Processing Noninvoiced

Disbursements 470

Logical Data Descriptions 472

Logical Database Design 472

Technology Trends and Developments 477

Physical Process Description 478

Discussion and Illustration 480

Exception Routines 480

The Fraud Connection 482

Nonfraudulent Losses 483

Application of the Control Framework 484

Control Goals 484

Recommended Control Plans 486

Summary 488

Key Terms 490

Review Questions 490

Discussion Questions 490

Problems 491

14 The Human Resources (HR) Management and Payroll Processes 498

Synopsis 499

Introduction 499

Process Definition and Functions 500

Definition of the HR Management

Process 500

Definition of the Payroll Process 501

Integration of the HR Management and

Payroll Processes 501

The HR Management Process 502

Organizational Setting and Managerial

Decision Making 503

Technology Trends and

Developments 503

Contents

xxiii

Implementing the HR Management Process 505 Key Data Tables 511 The Payrell Process 511	Discussion Questions 569 Problems 570
The Payroll Process 511 Organizational Setting 511 Logical Description of the Payroll Process 511 Implementing the Payroll Process 516	PART 5 REPORTING WITH AND ACQUIRING ACCOUNTING INFORMATION SYSTEMS
The Fraud Connection 520 Application of the Control Framework 521 Summary 527	16 The General Ledger and Business Reporting (GL/BR) Process 573
Key Terms 527	Synopsis 574
Review Questions 528	System Definition and Functions 574
Discussion Questions 528	Organizational Setting 575
Problems 529	Horizontal Perspective of the General
	Ledger and Business Reporting
15 Integrated Production	Process 575
Processes (IPP) 537	Horizontal and Vertical Information
Synopsis 538	Flows 579
Competing in a Global Manufacturing	Logical System Description 579 Discussion and Illustration 579
Environment 538	The General Ledger Master Data 584
Product Innovation 541	Coding the General Ledger
Production Process Innovation 541	Chart of Accounts 584
Supply Chain Management 542	Limitations of the General Ledger
Management Accounting Systems 543	Approach 585
Integrated Production Processes (IPP) 545	Technology-Enabled Initiatives in Business
Design Product and Production Processes 545	Reporting 586
Generate Master Production	ERP Financial Module Capability 587
Schedule 548	Balanced Scorecard 588
Determine Needs for Materials 550	Business Intelligence 589
Develop Detailed Production	eXtensible Business Reporting Language (XBRL) 589
Instructions 552	The Sarbanes-Oxley Act 592
Manufacturing (Production Work	Current Environment for External
Centers) 553	Financial Reporting 593
Record Manufacturing Events 555	Summary 593
Generate Managerial Information 556	Key Terms 594
Cost Accounting: Variance Analysis 558	Review Questions 594
Record Standard Costs 559	Discussion Questions 595
Compute Raw Material Quantity	Problems 595
Variance 559 Compute Direct Labor Variances 561	
Close Manufacturing Orders 562	17 Acquiring and Implementing
Compute Manufacturing Overhead	Accounting Information
Variances 562	Systems 597
Inventory Management 562	Synopsis 598
Decision Makers and Types of	Introduction 599
Decisions 563	Acquiring an AIS from External Parties 599
The Fraud Connection 564	Managing the Systems Development
Inventory Process Controls 565	Process 600

Systems Development Methodology 600 Systems Survey 601

Structured Systems Analysis 604

Inventory Process Controls 565

Summary 567 Key Terms 568 Review Questions 568

xxiv Contents

Systems Analysis Definition and Tasks 604
Complete and Package the Approved
Systems Analysis Document 608
Systems Selection 609
The Systems Selection Deliverable: The
Approved Configuration Plan 609
Hardware Acquisition Alternatives 610
Structured Systems Design 615
Definition and Goals 615
Systems Implementation 616
Post-Implementation Review 621

Systems Maintenance 622
Accountant Involvement in AIS Development/
Acquisition 623
Summary 625
Key Terms 625
Review Questions 626
Discussion Questions 626
Problems 628

Glossary 633 Index 649