

Table of Contents

Part I **Overview of Accounting Information Systems** **1**

Chapter 1 **The Information System: An Accountant's Perspective** **2**

The Information Environment **3**

- What Is a System? 4
- An Information Systems Framework 6
- AIS Subsystems 9
- A General Model for AIS 10
- Acquisition of Information Systems 15

Organizational Structure **16**

- Business Segments 16
- Functional Segmentation 17
- The Accounting Function 20
- The Information Technology Function 21

The Evolution of Information System Models **26**

- The Manual Process Model 26
- The Flat-File Model 27
- The Database Model 29
- The REA Model 31
- Enterprise Resource Planning Systems 34

The Role of the Accountant **34**

- Accountants as Users 35
- Accountants as System Designers 35
- Accountants as System Auditors 36

Summary **37**

Chapter 2 **Introduction to Transaction Processing** **44**

An Overview of Transaction Processing **45**

- Transaction Cycles 45
- The Expenditure Cycle 45
- The Conversion Cycle 46
- The Revenue Cycle 47

Accounting Records **47**

- Manual Systems 47
- The Audit Trail 54
- Computer-Based Systems 55

Documentation Techniques **57**

- Data Flow Diagrams and Entity Relationship Diagrams 58

Flowcharts 61
Record Layout Diagrams 72

Computer-Based Accounting Systems 73

Differences between Batch and Real-Time Systems 74
Alternative Data Processing Approaches 75
Batch Processing Using Real-Time Data Collection 78
Real-Time Processing 80

Summary 82

Appendix 82

Chapter 3 Ethics, Fraud, and Internal Control 112

Ethical Issues in Business 113

Business Ethics 113
Computer Ethics 114
Sarbanes-Oxley Act and Ethical Issues 117

Fraud and Accountants 119

Definitions of Fraud 119
Factors that Contribute to Fraud 120
Financial Losses from Fraud 122
The Perpetrators of Frauds 122
Fraud Schemes 125

Internal Control Concepts and Techniques 134

SAS 78/COSO Internal Control Framework 139

Summary 145

Part II Transaction Cycles and Business Processes 161

Chapter 4 The Revenue Cycle 162

The Conceptual System 163

Overview of Revenue Cycle Activities 163
Sales Return Procedures 170
Cash Receipts Procedures 173
Revenue Cycle Controls 177

Physical Systems 181

Manual Systems 182

Sales Order Processing 182
Sales Return Procedures 185
Cash Receipts Procedures 185

Computer-Based Accounting Systems 188Automating Sales Order Processing with Batch
Technology 188

Keystroke 191

Edit Run 191

Update Procedures 191

Reengineering Sales Order Processing with
Real-Time Technology 193

Transaction Processing Procedures 194

General Ledger Update Procedures 194

Advantages of Real-Time Processing 195

Automated Cash Receipts Procedures 195

Reengineered Cash Receipts Procedures 197

Point-of-Sale (POS) Systems 197

Daily Procedures 198

End-of-Day Procedures 199

Reengineering Using EDI 200

Reengineering Using the Internet 200

Control Considerations for Computer-Based
Systems 201**PC-Based Accounting Systems 203**

PC Control Issues 204

Summary 204**Appendix 205****Chapter 5 The Expenditure Cycle Part I: Purchases and
Cash Disbursements Procedures 234****The Conceptual System 235**Overview of Purchases and Cash Disbursements
Activities 235

The Cash Disbursements Systems 243

Expenditure Cycle Controls 245

Physical Systems 249

A Manual System 249

The Cash Disbursements Systems 251

**Computer-Based Purchases and Cash Disbursements
Applications 252**Automating Purchases Procedures Using Batch Processing
Technology 253

Cash Disbursements Procedures 258

Reengineering the Purchases/Cash Disbursements System	259
Control Implications	261

Summary 263

Chapter 6 The Expenditure Cycle Part II: Payroll Processing and Fixed Asset Procedures 285

The Conceptual Payroll System 286

Payroll Controls	294
------------------	-----

The Physical Payroll System 296

Manual Payroll System	297
-----------------------	-----

Computer-Based Payroll Systems 298

Automating the Payroll System Using Batch Processing	298
--	-----

Reengineering the Payroll System	298
----------------------------------	-----

The Conceptual Fixed Asset System 301

The Logic of a Fixed Asset System	302
-----------------------------------	-----

The Physical Fixed Asset System 305

Computer-Based Fixed Asset System	305
-----------------------------------	-----

Controlling the Fixed Asset System	307
------------------------------------	-----

Summary 310

Chapter 7 The Conversion Cycle 332

The Traditional Manufacturing Environment 333

Batch Processing System	334
-------------------------	-----

Controls in the Traditional Environment	344
---	-----

World-Class Companies and Lean Manufacturing 347

What Is a World-Class Company?	348
--------------------------------	-----

Principles of Lean Manufacturing	348
----------------------------------	-----

Techniques and Technologies that Promote Lean Manufacturing 350

Physical Reorganization of the Production Facilities	350
--	-----

Automation of the Manufacturing Process	350
---	-----

Accounting in a Lean Manufacturing Environment 355

- What's Wrong with Traditional Accounting Information? 355
- Activity-Based Costing (ABC) 356
- Value Stream Accounting 358

Information Systems that Support Lean Manufacturing 360

- Materials Requirement Planning (MRP) 360
- Manufacturing Resource Planning (MRP II) 360
- Enterprise Resource Planning (ERP) Systems 363

Summary 364**Chapter 8 Financial Reporting and Management Reporting Systems 381****Data Coding Schemes 382**

- A System without Codes 382
- A System with Codes 383
- Numeric and Alphabetic Coding Schemes 383

The General Ledger System 387

- The Journal Voucher 387
- The GLS Database 388
- GLS Procedures 389

The Financial Reporting System 389

- Sophisticated Users with Homogeneous Information Needs 389
- Financial Reporting Procedures 389

Controlling the FRS 391

- COSO/SAS 78 Control Issues 392

The Management Reporting System 394**Factors that Influence the MRS 394**

- Management Principles 395
- Management Function, Level, and Decision Type 398
- Problem Structure 401
- Types of Management Reports 403
- Responsibility Accounting 405
- Behavioral Considerations 409

Summary 412

Part III **Advanced Technologies in Accounting Information 429**

Chapter 9 Database Management Systems 430

Overview of the Flat-File vs. Database Approach 431

- Data Storage 431
- Data Updating 431
- Currency of Information 431
- Task-Data Dependency 431
- The Database Approach 432
- Flat-File Problems Solved 432
- Controlling Access to the Database 433
- The Database Management System 433
- Three Conceptual Models 434

Elements of the Database Environment 434

- Users 435
- Database Management System 436
- Database Administrator 438
- The Physical Database 441

The Relational Database Model 442

- Relational Database Concepts 443
- Anomalies, Structural Dependencies, and
Data Normalization 447

Designing Relational Databases 454

- Identify Entities 455
- Construct a Data Model Showing Entity
Associations 457
- Add Primary Keys and Attributes to the Model 458
- Normalize Data Model and Add Foreign Keys 459
- Construct the Physical Database 460
- Prepare the User Views 463
- Global View Integration 464

Databases in a Distributed Environment 464

- Centralized Databases 464
- Distributed Databases 466

Summary 470

Appendix 471

Chapter 10 The REA Approach to Database Modeling 496

The REA Approach 497

The REA Model 497

Developing an REA Model 501

Differences between ER and REA Diagrams 501

View Modeling: Creating an Individual REA Diagram 502

View Integration: Creating an Enterprise-Wide REA Model 509

Step 1. Consolidate the Individual Models 510

Step 2. Define Primary Keys, Foreign Keys, and Attributes 513

Step 3. Construct Physical Database and Produce User Views 516

REA and Value Chain Analysis 520

REA Compromises in Practice 521

Summary 521

Chapter 11 Enterprise Resource Planning Systems 528

What Is an ERP? 529

ERP Core Applications 531

Online Analytical Processing 531

ERP System Configurations 532

Server Configurations 532

OLTP Versus OLAP Servers 532

Database Configuration 535

Bolt-on Software 535

Data Warehousing 537

Modeling Data for the Data Warehouse 537

Extracting Data from Operational Databases 538

Cleansing Extracted Data 540

Transforming Data into the Warehouse Model 540

Loading the Data into the Data Warehouse Database 541

Decisions Supported by the Data Warehouse 542

Supporting Supply Chain Decisions from the Data Warehouse 542

Risks Associated with ERP Implementation 543

Big Bang Versus Phased-in Implementation 544

Opposition to Changes in the Business's
Culture 544

Choosing the Wrong ERP 545

Choosing the Wrong Consultant 546

High Cost and Cost Overruns 547

Disruptions to Operations 548

**Implications for Internal Control and
Auditing 549**

Transaction Authorization 549

Segregation of Duties 549

Supervision 549

Accounting Records 550

Access Controls 550

Auditing the Data Warehouse 551

Summary 552**Appendix 553****Chapter 12 Electronic Commerce Systems 563****Intra-Organizational Networks and EDI 564****Internet Commerce 564**

Internet Technologies 564

Protocols 567

Internet Protocols 569

Benefits from Internet Commerce 577

Risks Associated with Electronic Commerce 578

Intranet Risks 580

Internet Risks 581

Risks to Consumers 581

Security, Assurance, and Trust 587

Encryption 588

Digital Authentication 588

Firewalls 590

Seals of Assurance 591

Implications for the Accounting Profession 592

Privacy Violation 593

Audit Implications of XBRL 594

Continuous Auditing 594

Electronic Audit Trails 594

Confidentiality of Data	595
Authentication	595
Nonrepudiation	595
Data Integrity	595
Access Controls	595
A Changing Legal Environment	596

Summary 596

Appendix 597

Part IV Systems Development Activities 623

Chapter 13 Managing the Systems Development Life Cycle 624

The Systems Development Life Cycle 625

Participants in Systems Development 626

Systems Strategy 627

Assess Strategic Information Needs 627

Strategic Business Needs 627

Legacy Systems 628

User Feedback 629

Develop a Strategic Systems Plan 631

Create an Action Plan 632

The Learning and Growth Perspective 634

The Internal Business Process Perspective 634

The Customer Perspective 634

The Financial Perspective 634

Balanced Scorecard Applied to IT Projects 634

Project Initiation 635

Systems Analysis 635

The Survey Step 636

The Analysis Step 638

Conceptualization of Alternative Designs 640

How Much Design Detail Is Needed? 640

Systems Evaluation and Selection 642

Perform a Detailed Feasibility Study 642

Perform Cost-Benefit Analysis 643

Prepare Systems Selection Report 649

Announcing the New System Project 650

User Feedback 650

The Accountant's Role in Managing the SDLC 651

How Are Accountants Involved with SDLC? 651

The Accountant's Role in Systems Strategy 651

The Accountant's Role in Conceptual Design 652

The Accountant's Role in Systems Selection 652

Summary 652

Chapter 14 Construct, Deliver, and Maintain Systems Project 659

In-House Systems Development 660

Tools for Improving Systems Development 660

Construct the System 664

The Structured Design Approach 664

The Object-Oriented Design Approach 667

System Design 669

Data Modeling, Conceptual Views, and Normalized Tables 670

Design Physical User Views 670

Design the System Process 677

Design System Controls 681

Perform a System Design Walk-Through 681

Program Application Software 682

Software Testing 683

Deliver the System 684

Testing the Entire System 684

Documenting the System 685

Converting the Databases 687

Converting to the New System 688

Post-Implementation Review 689

The Role of Accountants 690

Commercial Packages 691

Trends in Commercial Packages 691

Advantages of Commercial Packages 693

Disadvantages of Commercial Packages 693

Choosing a Package 693

Maintenance and Support	698
User Support	698
Knowledge Management and Group Memory	698
Summary	699
Appendix	699

Part V Computer Controls and Auditing 723

Chapter 15 IT Controls Part I: Sarbanes-Oxley and IT Governance 724

Overview of Sections 302 and 404 of SOX	725
Relationship between IT Controls and Financial Reporting	725
Audit Implications of Sections 302 and 404	726
IT Governance Controls	728
Organizational Structure Controls	728
Segregation of Duties within the Centralized Firm	729
The Distributed Model	731
Creating a Corporate IT Function	732
Audit Objectives Relating to Organizational Structure	734
Audit Procedures Relating to Organizational Structure	734
Computer Center Security and Controls	734
Computer Center Controls	735
Disaster Recovery Planning	737
Providing Second-Site Backup	738
Identifying Critical Applications	739
Performing Backup and Off-Site Storage Procedures	740
Creating a Disaster Recovery Team	740
Testing the DRP	740
Audit Objective: Assessing Disaster Recovery Planning	741
Audit Procedures for Assessing Disaster Recovery Planning	741
Summary	742
Appendix	743

Chapter 16	IT Controls Part II: Security and Access	759
	Controlling the Operating System	760
	Operating System Objectives	760
	Operating System Security	760
	Threats to Operating System Integrity	761
	Operating System Controls and Test of Controls	762
	Controlling Database Management Systems	767
	Access Controls	767
	Backup Controls	770
	Controlling Networks	771
	Controlling Risks from Subversive Threats	771
	Controlling Risks from Equipment Failure	780
	Electronic Data Interchange (EDI) Controls	782
	Transaction Authorization and Validation	783
	Access Control	783
	EDI Audit Trail	783
	Summary	785
	Appendix	786
Chapter 17	IT Controls Part III: Systems Development, Program Changes, and Application Controls	797
	Systems Development Controls	798
	Controlling Systems Development Activities	798
	Controlling Program Change Activities	800
	Source Program Library Controls	801
	The Worst-Case Situation: No Controls	802
	A Controlled SPL Environment	802
	Application Controls	806
	Input Controls	806
	Processing Controls	809
	Output Controls	812
	Testing Computer Application Controls	815
	Black Box Approach	815
	White Box Approach	816
	White Box Testing Techniques	818

The Integrated Test Facility 822

Parallel Simulation 823

Substantive Testing Techniques 824

The Embedded Audit Module 825

Generalized Audit Software (GAS) 826

Summary 830

GLOSSARY
INDEX

G-1
I-1