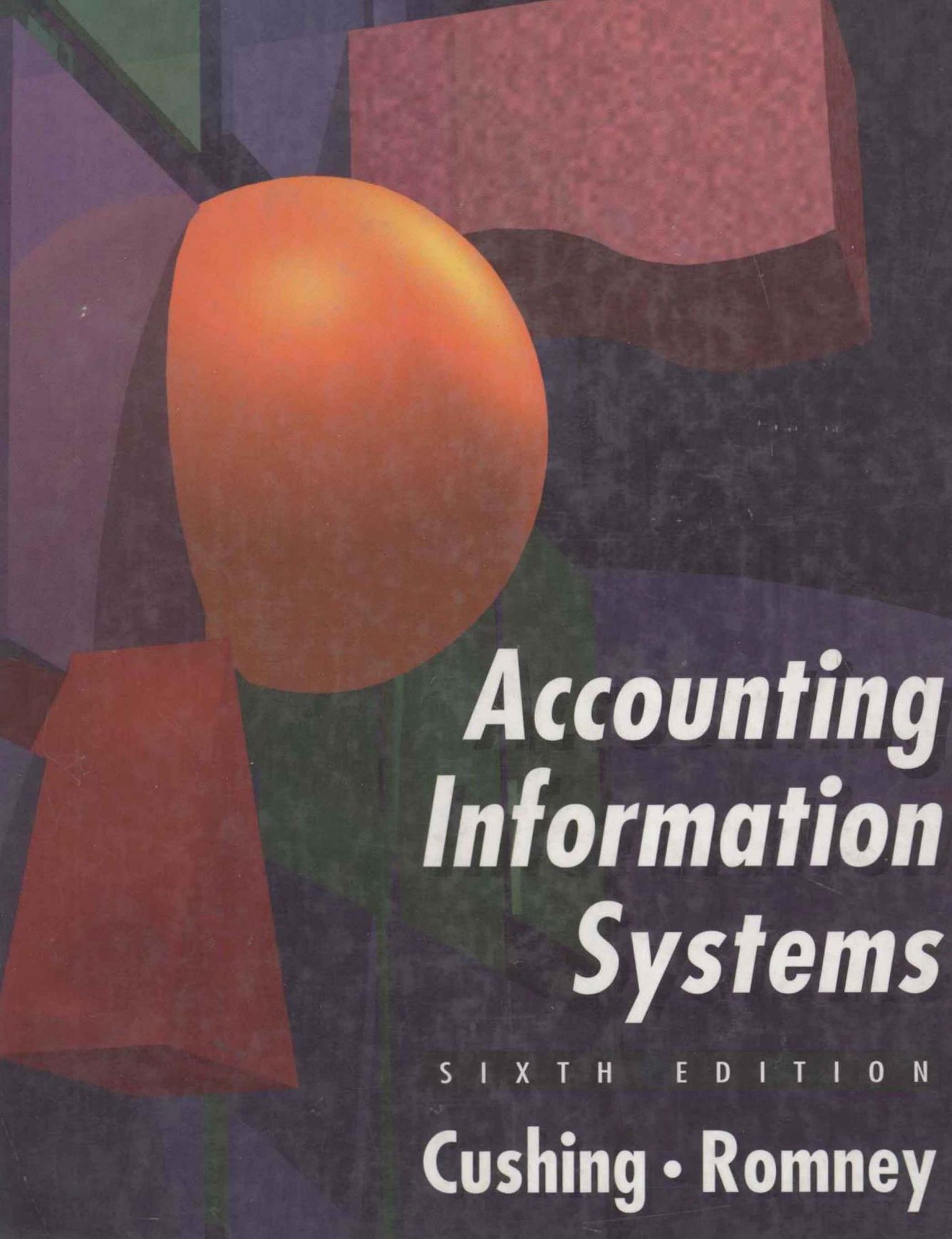
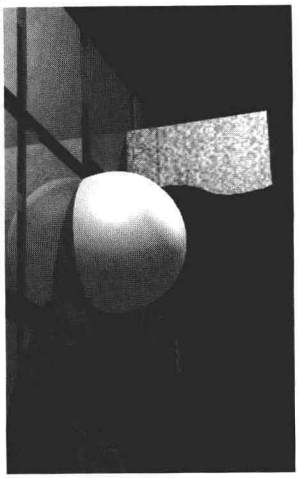


Accounting Information Systems

SIXTH EDITION

Cushing • Romney

6TH EDITION



Accounting Information Systems

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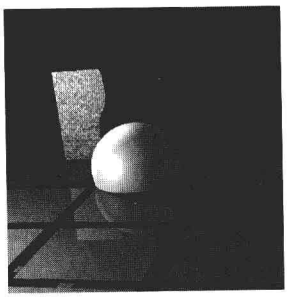

PREFACE

Today, professional accountants work in an exciting and complex environment that is constantly changing. Progress in information technology is occurring at an ever-increasing rate. Business organizations are changing their methods of operation and their management structures to meet the demands of an increasingly competitive environment. The economic and legal environment that accountants work in is also changing in unpredictable ways. All of these environmental changes require that today's accounting students be better prepared than ever before to enter the challenging world of the accounting profession.

A central feature of accounting in today's business world is the interaction of accounting professionals with computer-based information systems. As primary users of information systems in organizations, accountants must participate in their design and understand their operation. Accounting managers must measure and evaluate the performance of information systems. Internal and external auditors must assess the quality of information processing and evaluate the accuracy of information input and output. The major share of the work of accounting consultants is in the design, implementation, and evaluation of information systems.

This book is intended for use in a one-semester course in accounting information systems at the advanced undergraduate or graduate level. Introductory financial and managerial accounting courses are necessary prerequisites, and an introductory course in data processing that covers a computer language or software package is helpful. The book can also be used as the main text in graduate or advanced undergraduate courses in management information systems.

As with the first five editions, the purpose of this text is to help prepare students for a career in the accounting profession. Today's accounting students will become tomorrow's users, auditors, and managers of computer-based information systems. To be successful in pursuing an accounting career, students must possess a basic knowledge of computer-based information systems and their role in performing the accounting function in contemporary business organizations. Thus students must

- understand the flow of accounting data and information in business organizations;

- be familiar with the tools of accounting systems work, such as data flow diagrams and flowcharting;
- understand how computer technology is used in information processing;
- understand how information systems are developed, implemented, and maintained;
- have a thorough knowledge of control principles and their application in information systems and various organizational contexts;
- understand the five major business and accounting cycles in which an organization's transactions are processed.

This book is written to help students acquire the understanding and knowledge of accounting information systems that they must have to succeed in their chosen field.

Major Changes in the Sixth Edition

Each new edition of this text has responded to the rapidly changing environment of business and accounting, and the sixth edition is no exception. A number of major changes have been made to this edition in response to recent developments in the field and in the teaching of accounting information systems courses.

New Features

Three new chapters have been added to the book. Chapter 3 consolidates into one chapter all of the systems development and documentation techniques that are needed and used by information systems developers and users. Chapter 11 discusses alternative approaches to the traditional systems development life cycle, such as purchasing software, prototyping, and outsourcing. It also discusses reengineering business processes. Chapter 14 discusses computer fraud and how it can be deterred and detected.

Most of the other 17 chapters have been substantially revised. In fact, we estimate that over 50% of the book has been rewritten. In revising the chapters, we made every effort to update the text and problem material to include the most current information technology and applications.

Each chapter begins with a realistic case problem raising many issues covered in the chapter. This case problem is integrated throughout the chapter, and a description of how the case is resolved appears at the end of each chapter.

Focus boxes are included in each chapter to provide current real-world examples of the concepts, techniques, and practices described in the text. In addition, numerous shorter examples of real-world situations and applications are incorporated into the text throughout every chapter.

An appendix has been added to the book containing four comprehensive cases. Each case has a list of requirements relating the case to material covered in most chapters in the book. Instructors can use one

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or more of these in a cumulative manner by making assignments from the same case after covering a chapter.

Each chapter has at least two end-of-chapter cases. One is the Anycompany case, which gets the students out into the community working with a local company. During visits to this company students are asked to discuss the concepts covered in the chapter with company employees and management and to investigate how the company has handled or would handle the issues discussed in the chapter.

Each chapter has a set of assignment materials designed to help students develop and test their knowledge. Included are over 1000 short review questions, discussion questions, problems of short and moderate length, and cases that are longer and integrate material from various parts of the chapter. Many new problems and cases have been added, and many others have been revised to reflect changes made in the text. Among the problems and cases are many items selected from professional examinations, including the CPA, CMA, CIA, and SMAC exams. Many new real-world problems and cases have been added to the assignment material. They were developed from reports in current periodicals and draw upon the experiences and problems faced by actual companies.

The text contains over 380 figures, diagrams, flowcharts, tables, and photographs that illustrate important concepts. Most of them are new to this edition.

At the end of the book is an extensive bibliography, by chapter, that should help students or instructors locate additional current readings and background material in order to pursue selected topics in greater depth.

The glossary at the back of the book, which contains definitions of key terms used in the text, has been revised extensively.

An overview of the sixth edition

The Introductory Chapters

Part I, "Conceptual Foundations of Accounting Information Systems," consists of three chapters that review the underlying concepts fundamental to an understanding of accounting information systems. Chapter 1 has been significantly revised and stresses how information systems add value to businesses. The chapter on organization in the fifth edition has been eliminated, and the more important material from that chapter has been integrated into other chapters. Chapter 2 on transaction processing emphasizes the data processing cycle. It also describes the key elements of accounting information processing cycles. Chapter 3 is a new chapter on systems development and documentation techniques. Data flow diagrams, systems flowcharts, document flowcharts, structure charts, and structured English are some of the design tools reviewed in this chapter.

Information Technology

Part II, "The Technology of Information Systems," includes Chapters 4 through 7 and focuses on the technology used to design and operate computer-based information systems. These chapters emphasize the concepts that drive the progress of technology, rather than the specific features of current technology, which tend to become quickly outdated. Chapter 4 is a review of hardware and software. Chapter 5, which discusses personal computers, has been rewritten to provide an end-user orientation. Chapter 6, which discusses telecommunications, has been updated, and a greater emphasis was placed on local area networks. Chapter 7, the data base chapter, has been revised; relational data bases are now emphasized.

All chapters in this section reflect the latest developments in information systems technology. Numerous examples have been incorporated into these chapters to provide a real-world setting. By explaining both the fundamentals of information systems (IS) technology and the present direction of technological developments, these chapters should enable students to appreciate technological change and how it affects IS possibilities.

The Systems Development Process

Part III, "The Systems Development Process," consists of Chapters 8 through 11. It focuses on the definition, development, and implementation of information systems. The four life cycle chapters from the fifth edition have been condensed into three chapters and revised to incorporate more current material. Chapter 8 emphasizes the steps that must be performed throughout the analysis and design of a new information system, including the planning and management of systems development, behavioral aspects of system change, and feasibility analysis, with an emphasis on economic feasibility. Chapter 9 covers the process of systems analysis and examines conceptual systems design. It also discusses computer-aided software engineering (CASE) tools. Chapter 10 discusses physical systems design as well as the steps involved in implementing a new system. Chapter 11 is a new chapter that explains some of the recent approaches to systems development, including reengineering, prototyping, and outsourcing. It also discusses the systems acquisition process in detail. Numerous real-world examples have been added to all four chapters to increase reader interest.

Control and Audit of Information Systems

Part IV, "Control and Audit of Accounting Information Systems," includes Chapters 12 through 15. This section has been extensively modified to incorporate more current material, including numerous examples to provide a real-world basis. Chapter 12 is organized around a discussion of a firm's internal control structure, consisting of its control environment, control procedures, and accounting systems. To reflect significant developments in recent accounting literature, this chapter also includes an analysis of the costs and benefits of internal control. Chapter 13 examines management control and internal control

in computer-based information systems. A new chapter on computer fraud (Chapter 14) has been added to this section. This new chapter discusses how and why fraud occurs, explains how to prevent and detect fraud, and provides many problems and cases that cover actual incidents of computer fraud. Chapter 15 reviews principles and techniques for audit evaluation of internal control in computer-based systems and discusses techniques for using the computer in the audit of accounting information systems.

Application of Accounting Information Systems

Part V, "Accounting Information Systems Applications," consists of five chapters that integrate the material in the first four parts of the book by taking a detailed look at how accounting information systems are applied within typical business organizations. This section describes the information processing requirements of the five major accounting cycles: the revenue cycle (Chapter 16), the procurement cycle (Chapter 17), the production cycle (Chapter 18), the personnel/payroll cycle (Chapter 19), and the financial management and reporting cycle (Chapter 20). Each chapter explains the accounting processes, data bases, and internal control procedures associated with a cycle.

In Part V all five chapters were completely revised. Descriptions of manual systems were replaced with generic descriptions of the primary functions and procedures performed within each of the major processing cycles. Almost all of the systems flowcharts and sample documents and reports were revised, and the related narratives modified, to better reflect the nature of contemporary accounting systems applications. In place of the previous emphasis on batch processing systems, the sixth edition emphasizes and explains the growing dominance of on-line systems in leading-edge organizations. The role of information systems in establishing a competitive advantage is stressed. And numerous real-world examples are incorporated throughout these chapters.

INSTRUCTIONAL SUPPLEMENTS

From the beginning, our guiding objective in preparing this textbook has been to simplify the teaching of accounting information systems by freeing instructors from the burden of locating, assembling, and distributing teaching materials, allowing them to concentrate on classroom presentation and discussion. We view this book and the related materials available from Addison-Wesley not as a textbook but as a teaching system. The major elements of this teaching system are described next.

Instructor's Manual

An *Instructor's Manual* is available to instructors who adopt this textbook. This manual begins with suggested syllabi for using the textbook in a one-semester or one-quarter course. The first section of the manual consists of 20 chapters corresponding to the chapters in the text. Each of these chapters contains a one-page outline of major topics covered in the chapter, suitable for reproduction as a transparency. It also contains learning objectives for the chapter material; detailed

teaching notes discussing how to present the chapter material to students; alternative lecture examples; references to key figures and discussion questions, problems, and cases; and alternative discussion questions, problems, and readings, where appropriate. The second section of the *Instructor's Manual* is a test item file containing approximately 2000 objective questions and their solutions for use in preparing examinations. This test bank is also available in computerized form for an IBM PC. The final section of the *Instructor's Manual* contains over 110 transparency masters of key tables and charts in the textbook.

Solutions Manual

A separate *Solutions Manual* is also available to those who adopt the text. It contains guidelines for leading class discussions based on each discussion question in the text, and it has suggested solutions for each of the text problems and cases.

Software Supplement

The book *Spreadsheet and Database Applications for Accounting Information Systems,* by Professors Roy Johnson of Roosevelt University and Denise Nitterhouse of DePaul University (Addison-Wesley, 1990), is also available. It is intended to supplement this book with coverage of spreadsheet and database software packages and with exercises designed to provide students with hands-on experience in applying accounting information systems concepts in a computer environment.

Supplementary Book of Readings and Cases

The book *Accounting Information Systems: A Book of Readings with Cases,* by James R. Davis and Barry E. Cushing (Addison-Wesley, 1987), is intended to supplement this book with outside readings organized according to a similar topical outline and with more complex and comprehensive cases.

By offering these supplements, we have attempted to develop a comprehensive teaching package that will make the teaching of accounting information systems courses an enjoyable experience for both new and seasoned instructors.

Acknowledgments

We wish to express our appreciation to Professor Paul J. Steinbart of Memphis State University for preparing the *Instructor's Manual* and computerized test bank to accompany this edition. We also thank Martha M. Eining of the University of Utah and Carol F. Venable of San Diego State University for preparing the comprehensive cases included in this edition.

We appreciate the help of Nina Whitehead in typing and preparing the various copies of the book and the *Solutions Manual.* We also wish to thank Andrew Knighton, Alan Lyon, and Eric Peterson, masters candidates at Brigham Young University, for their assistance in reviewing problems and problem solutions for this edition. Finally, we are grateful to Iris Vesey for her contributions to the problem material.

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We are grateful for permission received from four professional accounting organizations to use problems and unofficial solutions from their past professional examinations in this book. Thanks are extended to the American Institute of Certified Public Accountants for use of CPA Examination materials, to the Institute of Certified Management Accountants of the National Association of Accountants for use of CMA Examination materials, to the Institute of Internal Auditors for use of CIA Examination materials, and to the Society of Management Accountants of Canada for use of SMAC Examination materials.

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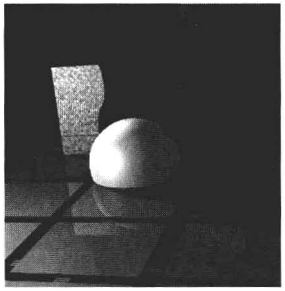
Suggestions and comments from users on the text and the related materials are welcome.

Salt Lake City, Utah B.E.C.
Provo, Utah M.B.R.



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PART I

CHAPTER 1 Accounting Information Systems: An Overview

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Explain what constitutes information and how to determine the value of information, explain what is meant by a system, and explain what an information system is and what its components are.
- Describe the basic features of accounting and management information systems, and distinguish between the two.
- Explain the role of accounting information systems in organizations, and discuss how they meet the needs of both external and internal information users.
- Describe the five basic business cycles and their relationship to each other.
- Explain why the study of accounting information systems is an important part of your educational program.

INTEGRATIVE CASE: S&S, INC.

After working for several years as a regional manager for a national retailing organization, Scott Parry decided to open his own business. Susan Anderson, one of his district managers, had also expressed a desire to go into business for herself. Together they formed a company, S&S Inc., to sell home appliance products to the public. The product

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