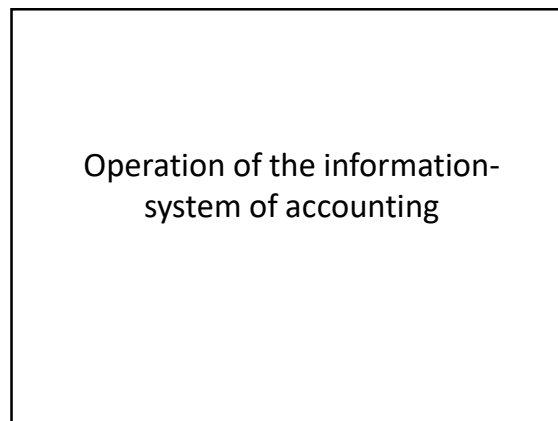
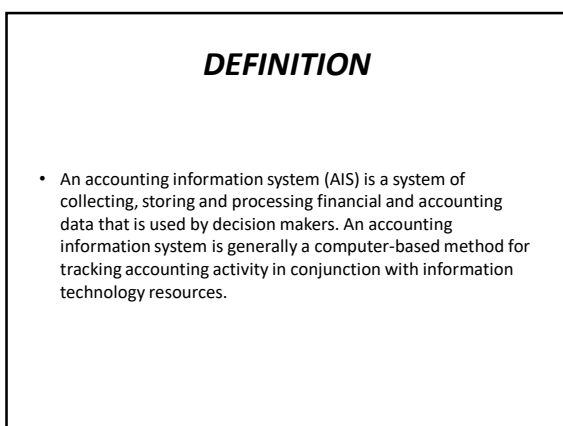


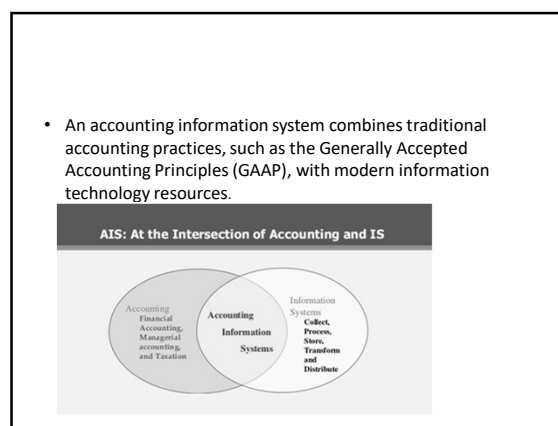
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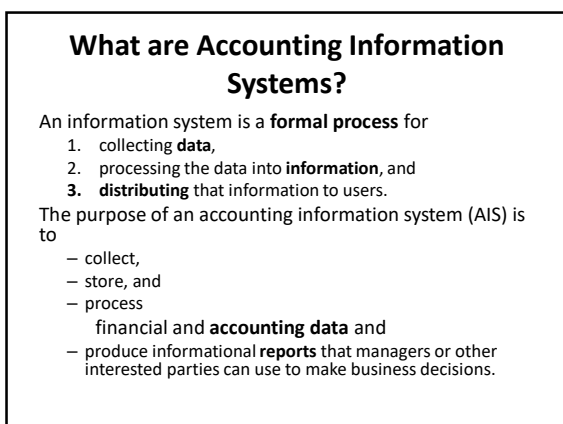
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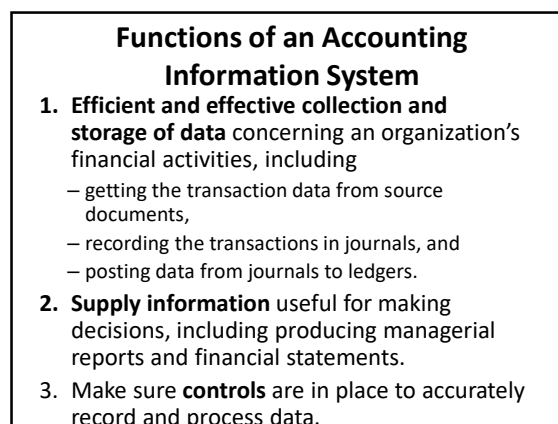
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6

Parts of an Accounting Information System

- 1. People** who use the system, including
 - accountants,
 - managers, and
 - business analysts
- 2. Procedure and instructions** are the ways that data are collected, stored, retrieved, and processed
- 3. Data** including all the information that goes into an AIS
- 4. Software** consists of computer programs used for processing data
- 5. Information technology infrastructure** includes all the hardware used to operate the AIS
- 6. Internal controls** are the security measures used to protect data

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Accounting?

- Financial
- Managerial
- Cost
- Auditing
- Tax

8

The Reliability of Accounting Information Systems

Because an AIS stores and provides such valuable business information, reliability is vitally important. These are five basic principles important to AIS reliability:

- **Security** - Access to the system and its data is controlled and limited only to those authorized.
- **Confidentiality** - The protection of sensitive information from unauthorized disclosure.
- **Privacy** - The collection, use, and disclosure of personal information about customers is done in an appropriate manner.
- **Processing integrity** - The accurate, complete, and timely processing of data done with proper authorization.
- **Availability** - The system is available to meet operational and contractual obligations.

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The Role of Accounting

Role	Users	Decisions	Preferred Characteristics
Managerial	Internal Managers	Planning Directing Controlling	Measure Inputs and Outputs Timeliness Identify Responsibility Forward-Looking
Financial	Shareholders Creditors Other External Users	Investment Credit	Verifiable Measure Organizational Value Measure Risk of Organization Consistent with IFRS
Tax	Taxing Authorities	Tax Liability	Verifiable Measure Past Income

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The Users of Accounting Information


- External vs. Internal Users of Accounting Information
- Mandatory vs. Discretionary Information

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A.1 External Users of Accounting Information

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A.2. Internal Users of Accounting Information



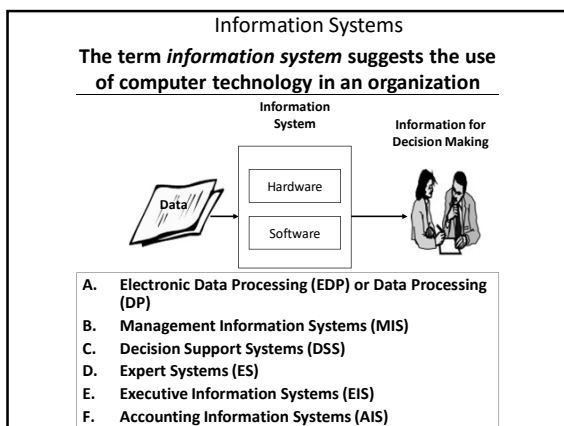
	Lower Level Managers	Middle Managers	Top-Level Managers
Characteristic of Information	Operational Control	Management Control	Strategic Planning
Source	Largely internal	----->	External
Level of Aggregation	Detailed	----->	Aggregate
Time Horizon	Historical	----->	Future
Required Accuracy	High	----->	Low

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B. Mandatory vs. Discretionary Information


<u>Mandatory Information</u>	<u>Evaluation Criteria</u>
Certain types of information must be generated regardless of the cost:	❖ For mandatory information, the primary concern is minimization of cost.
❖ Government reports	❖ In contrast, discretionary information should provide greater benefits than the cost of generating it.
❖ Payroll	
❖ Basic bookkeeping	

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A. Electronic Data Processing (EDP) or Data Processing (DP)



Use of computer technology to perform an organization's transaction-oriented data processing.

DP systems serve routine, recurring, general information needs.


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B. Management Information Systems (MIS)

Use of computer technology to provide managers with decision-oriented information beyond what a normal DP system provides.

Subsystems include:


- Marketing information system
- Manufacturing information system
- Human resource information system
- Financial information system



Functional MIS subsystems provide a logical rather than physical way of implementing the MIS concept in organizations.

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C. Decision Support Systems (DSS)



Processes data into a decision making format for end users.

Decision support systems (DSS's) process nonroutine information requests on an ad hoc basis.

Requires the use of decision models and specialized databases beyond what is in a DP system.

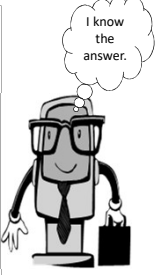
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D. Expert Systems (ES)

Emulates an **experts decision making process to provide a decision.** Different from DSS which only provides information for making a decision.

Two components of the ES are as follows:


- ❖ Knowledge base – special knowledge that an expert possesses in the decision area.
- ❖ Inference engine – process by which expert makes the decision.



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E. Executive Information System (EIS)

- Executive information systems tailor **information to the strategic needs of top-level management.**
- Much of the information used by top-level management comes from sources outside the organizations information system. (i.e., meetings, memos, television, periodicals, and social activities).



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F. Accounting Information Systems (AIS)




- ❖ A computer-based system designed to transform accounting data into information.
- ❖ Can also include transactions processing cycles, the use of information technology, and the development of information systems.

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Transaction Processing Cycles

The transaction processing cycles provide a means of viewing the activities of a business.


- A. Revenue Cycle
- B. Expenditure Cycle
- C. Production Cycle
- D. Finance Cycle
- E. Financial Reporting Cycle



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A. Revenue Cycle


Events related to the **distribution** of goods and services to other entities and the collection of related payments



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B. Expenditure Cycle


Events related to the **acquisition** of goods and services from other entities and the settlement of related obligations.



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C. Production Cycle

Events related to the **transformation of resources into goods and services.**



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D. Finance Cycle




Events related to the acquisition and management of capital funds, including cash. The treasurer is responsible for the finances of the business.

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E. Financial Reporting Cycle

- Not an operating cycle
- This cycle **obtains accounting and operating data from other cycles and processes this data so that financial reports can be prepared.**



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Types of accounting information

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Comparison of Financial and Managerial Accounting	
Financial Accounting	Managerial Accounting
Externally focused - Public information - For all stakeholders: Investors, creditors, customers, suppliers, government agencies, and labor unions	Internally focused - Private information - Only for management
Objective financial information: must follow externally imposed rules - Strong regulation - Standard documents - Reporting period: financial year	Financial and nonfinancial information; subjective information possible: No mandatory rules - Weak regulation - Non-standard documents - Reporting period (?)
Historical orientation: Investment decisions, stewardship evaluation, monitoring activity, and regulatory measures	Emphasis on the future
Information about the firm as a whole All operations: exchange between entity and its environment	Internal evaluation and decisions based on very detailed information Operations and other events: focus on managerial decisions

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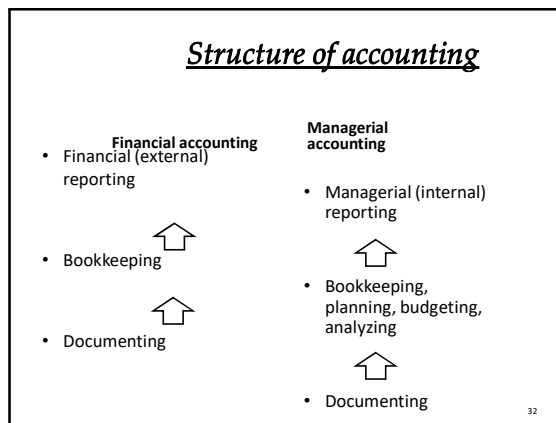
<u>Comparison of financial and management accounting I.</u>	
Financial Accounts	Management Accounts
Describe the performance of a business over a specific period and the state of affairs at the end of that period. The specific period is often referred to as the "Trading Period" and is usually one year long. The period-end date as the "Balance Sheet Date"	Are used to help management record, plan and control the activities of a business and to assist in the decision-making process. They can be prepared for any period (for example, many retailers prepare daily management information on sales, margins and stock levels).
Companies are required by law/standards to prepare and publish financial accounts. The level of detail required in these accounts reflects the size of the business.	There is no legal requirement to prepare management accounts, although few (if any) well-run businesses can survive without them.
The format of published financial accounts is determined by several different regulatory elements: • Accountancy Act (2000. C.) • Accounting Standards (IAS, IFRS)	There is no pre-determined format for management accounts. They can be as detailed or brief as management wish.

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Comparison of financial and management accounting II.

Financial Accounts	Management Accounts
Concentrate on the business as a whole rather than analysing the component parts of the business. For example, sales are aggregated to provide a figure for total sales rather than publish a detailed analysis of sales by product, market etc. Most financial accounting information is of a monetary nature .	Can focus on specific areas of a business' activities. For example, they can provide insights into performance of: <ul style="list-style-type: none"> • Products • Separate business locations (e.g. shops) • Departments / divisions
	Usually include a wide variety of non-financial information , for example, analysis of: <ul style="list-style-type: none"> • Employees (number, costs, productivity) • Sales volumes (units sold etc.) • Customer transactions (e.g. number of calls received into a call centre)
By definition, financial accounts present a historic perspective on the financial performance of the business	Largely focus on analysing historical performance . However, they also usually include some forward-looking elements - e.g. a sales forecast

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Differences and Similarities

- Both deal with the same accounting data
- Both managerial and financial accounting deal with economic events of a business
- Both require that economic events be quantified and communicated to interested parties
 - Financial – external
 - Managerial- internal

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Managerial or Management Accounting

- Industrial Revolution – more complex production process
 - Cost became important
 - Cost accounting (forerunner of managerial accounting)
 - Cost of an object – product, segment, division
 - First book 1897 – Garcke and Fell – Factory Accounting
 - 20th century – multinationals, and large companies
 - Performance evaluation
 - Budgeting
- Management accounting term used after Second World War
- Assist managerial decisions
 - Provide timely and accurate information to control costs and to measure and improve productivity; and devise improved production process
- Accurate costs important for
 - Pricing decisions
 - New product
 - Response to rival products

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Managerial Accounting Objectives

- Provide information for planning and decision making – be a part of it
- Assist managers in daily control of operations
- Motivate the managers and other employees towards the company goals-goal congruence
- Performance measurement of managers
- Strategic planning – determine competitive position and long-run success of the company

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Managerial Accounting Characteristics

- Internal – manager oriented
- Future looking – planning
- Involves estimates
- More timely and relevant data necessary
- Adaptive to changing business environment
- Cross-functional – brings together production, marketing, managerial accountants and other key personnel

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The Meaning of Managerial Accounting

- Managerial accounting has three broad objectives:

- To provide information for **planning** the organization's actions.
- To provide information for **controlling** the organization's actions.
- To provide information for **making effective decisions**.

LO-1

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Planning - strategic and operational

- The detailed formulation of **action** to achieve a particular end is the management activity called **planning**.

Example

```

    graph TD
      A[Setting objectives] --> B[Identifying methods to achieve those objectives]
      B --> C[Supplier Evaluation Program]
      D[Improve Quality] --> A
    
```

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Planning

- Identify alternatives.
- Select alternative that does the best job of furthering organization's objectives.
- Develop budgets to guide progress toward the selected alternative.

Plans communicate goals to employees to coordinate functions such as sales and production. Financial plans are often expressed in the form of budgets (i.e., profit, cash, production budgets)

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Controlling

- Performance reports compare actual with planned (budgeted) performance.
 - Actual vs budget comparison
 - Analysis and interpretation
 - Feedback

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Decision Making - Generate, analyze and report relevant information

- The process of choosing among competing alternatives is called **decision making**.

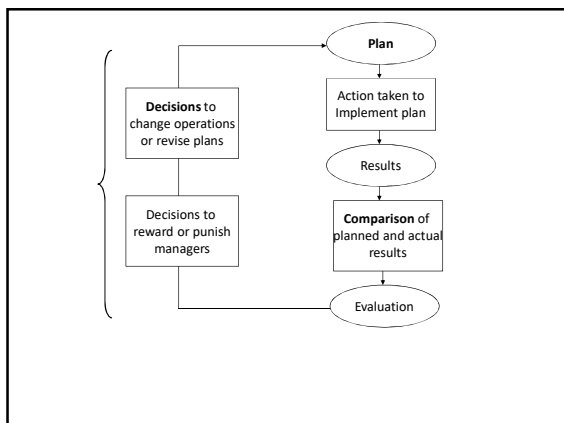
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Planning and Control Cycle

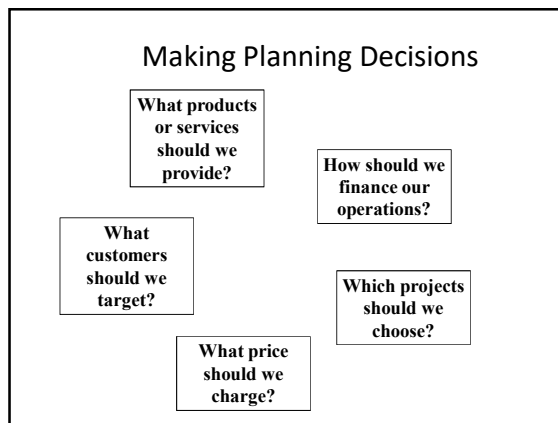
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    graph TD
      A[Formulating long- and short-term plans (Planning)] --> B[Implementing plans (Directing and Motivating)]
      B --> C[Measuring performance (Controlling)]
      C --> D[Comparing actual to planned performance (Controlling)]
      D --> A
      E[Decision Making] <--> A
      E <--> B
      E <--> C
      E <--> D
    
```

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Thank you for your attention!

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