

# Accounting Information System

Introduction

# What Is Accounting?

- **It is the principal way of organizing and reporting financial information.**

# Computerized Accounting Systems

- Software programs (functions include sales, purchases, receivables, payables, cash receipts and payroll).

# Advantage of Computerize Accounting System

- Typically enter data only once.
- Many human errors are eliminated.
- More timely information.
- Automatically Generate financial statements.
- Recording transactions in electronic forms and at the same time posting them electronically to general and subsidiary ledger accounts.
- More accurate then manual systems

# Manual Accounting Systems

- Perform each step in the accounting cycle by hand.
- Satisfactory in a company with a low volume of transactions.
- Must understand manual accounting systems to understand computerized accounting systems.

# What is System?

- A **system** is a collection of elements or components that are organized for a common purpose. The word sometimes describes the organization (and is similar in meaning to method, as in "I have my own little **system**") and sometimes describes the parts in the **system** (as in "computer **system**").

# Meaning Of Information Systems

- An information system is an organized combination of people, hardware, software, communications Networks and data resources that collects, transforms information in an organization.



# So What is Accounting Information System?

- Accounting Information system is the **set of computer based tools to collect**, store, and process transaction data and communicates financial information to decision makers.
- In addition, the system greatly contributes to preparing different reports.



# AIS Cont...

- Accounting information system is a computer based tool which is **widely used in business**. It helps to interact with customers and suppliers. Likewise it helps in competing and running business smoothly. For example the co-operative sector put details on the web through information system to interact with their customers, Government used AIS to provide services to their citizen, to get the information about the nation economy and to collect tax.

## AIS Cont...

- The accounting information system is in close connection with the management information department, the accounting and administration department, the inner control and the information technology team.
- Parts of an accounting information system might include financial reporting, cost accounting, management accounting and enterprise resource planning (ERP). A well- designed AIS gives a business a consistent way to view and analyze financial information.

# Accountants' role in the AIS

- As Designers
- As Implementers
- As Auditors
- As User
- As Owners

# Reasons for Studying Accounting Information Systems

- Career accountants will be users, auditors, and developers of AIS
- Modern-day AIS are complex because of new technologies



# System elements

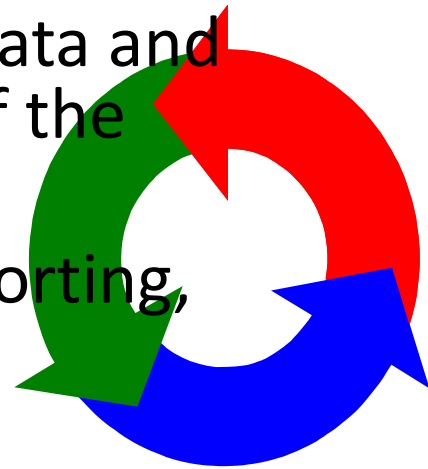
- Input
- Memory
- Process
- output

# Data & Information

- Data are facts that are collected, recorded, stored, and processed by an information system. Organizations collect data about event that occur, resources that are affected by those events and agents who participant in the event.
- Information is different from data, information is data that has been organized and processed to provide meaning to a user. Usually more information and better information translate into better decisions.

# Functional Steps in Transforming Data into Information

- **Data collection** - capturing, recording, validating and editing data for completeness and accuracy
- **Data Maintenance/Processing** - classifying, sorting, calculating data
- **Data Management** - storing, maintaining and retrieving data
- **Data Control** - safeguarding and securing data and ensuring the accuracy and completeness of the same
- **Information Generation** - interpreting, reporting, and communicating information



# Essential element of best AIS

- Hardware
- Software
- Database
- Telecommunication
- People
- Procedure



# Users of accounting information System

- **Internal:** are those that are part of the firm and whose decisions affect the running of the firm. This includes the board of directors, the executive committee, the CEO, management and the people who work for the firm.
- **External:** are agents that are not active participants in the running of the firm, but are affected by the decisions its makes.
  - o The *stakeholders* of a firm are agents who are interested in the running of the firm because the decisions they make are directly affected by the success of the firm. The most important stakeholders of a firm are its shareholders also include its creditors, employees, suppliers, clients, the government.
  - o Any other person who is interested in analyzing the accounting information to find out about a firm, such as professors, researchers or undergraduate students.

# Function of AIS

- ✓ Collect and store data about events, resources and agents
- ✓ Decisions about events, resources, and agents
- ✓ To meet an organization's statutory reporting requirements.
- ✓ To provide relevant and accurate accounting information to those who need it when they need it
- ✓ Save time and reduce errors.
- ✓ To protect the organization from possible risks of accounting data or of the system itself.
- ✓ Cost Effectiveness

# Effective implementation of AIS

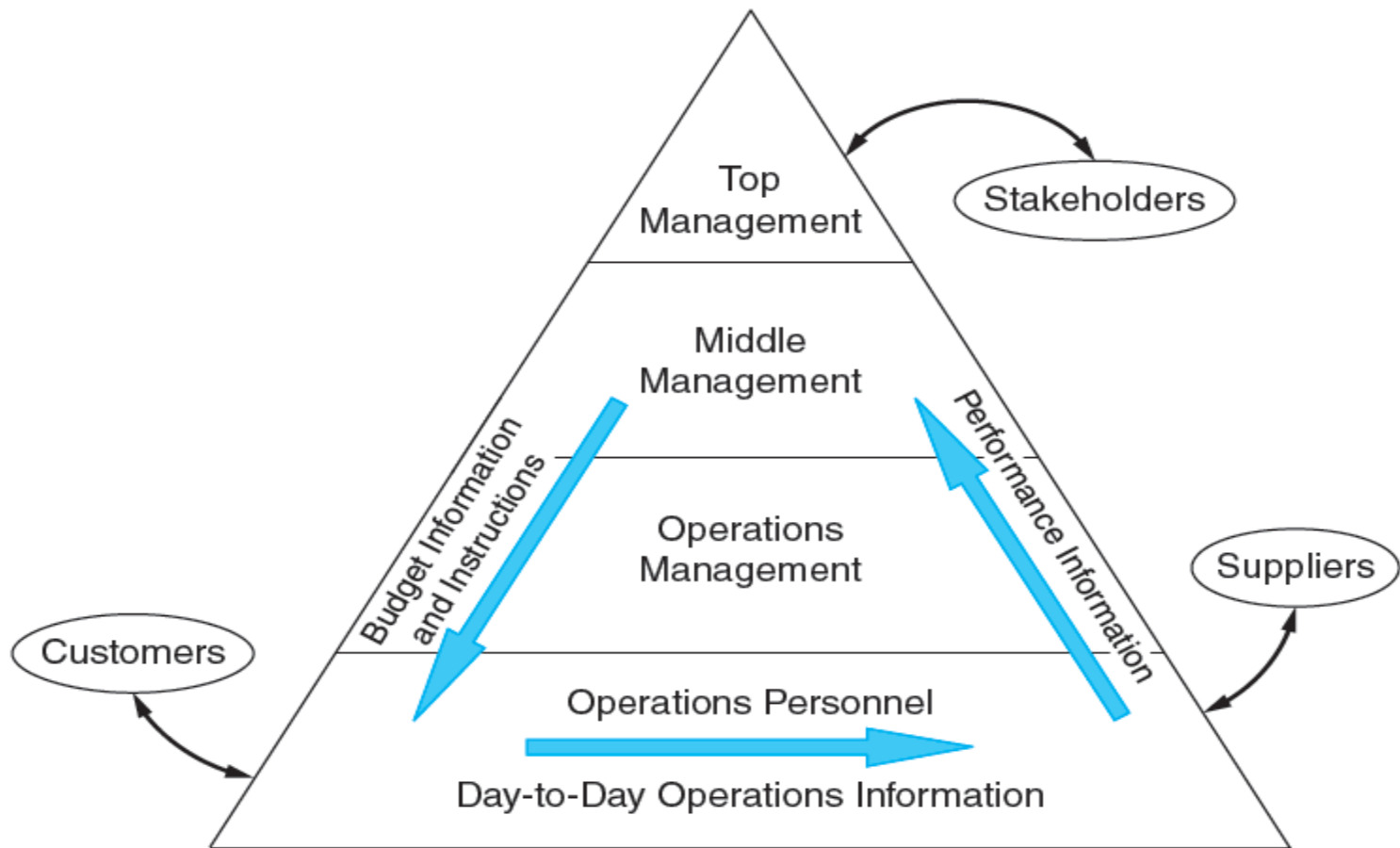
These steps necessary to implement a successful accounting information system are as follows.

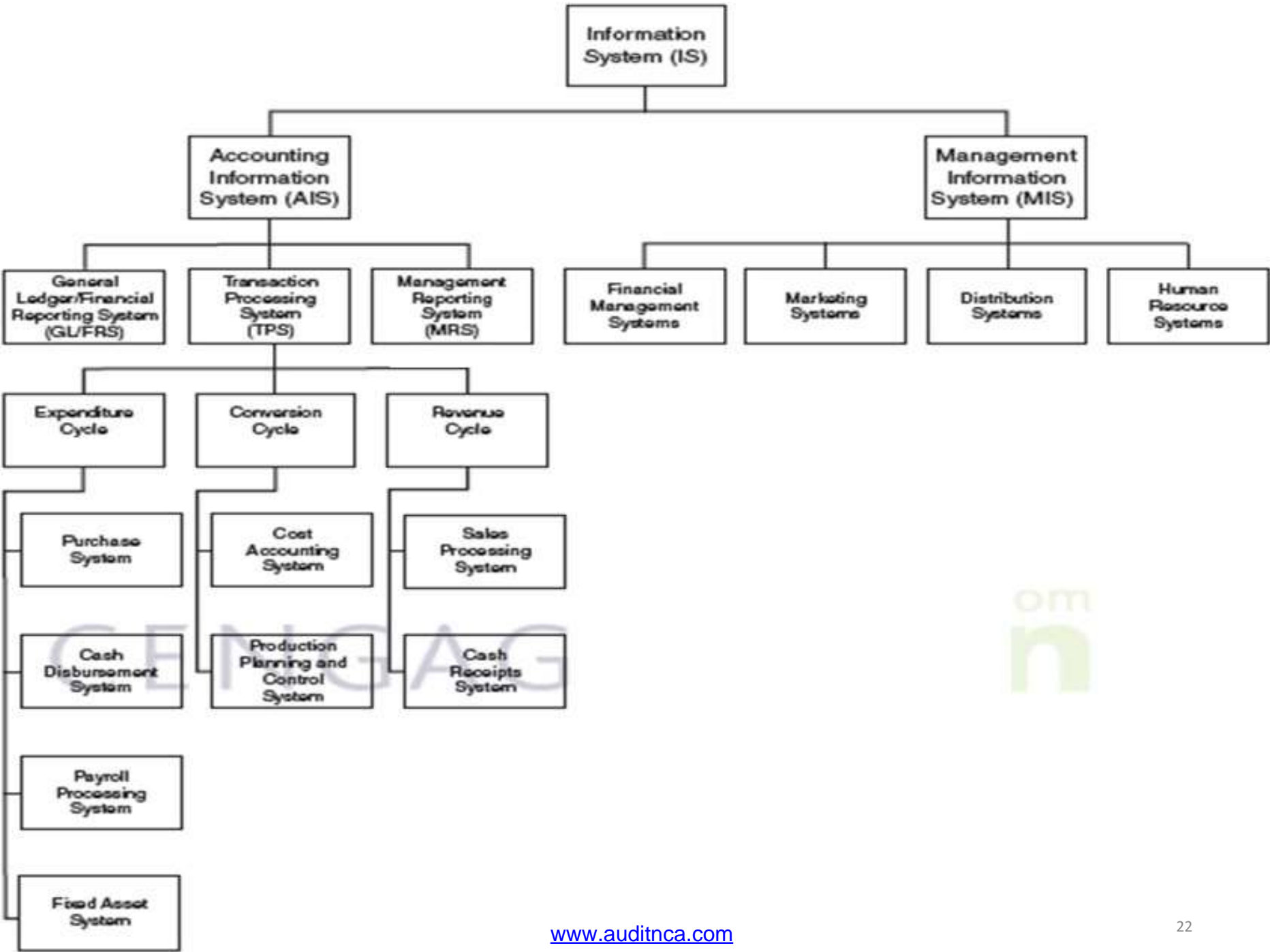
- ✓ Details Requirements Analysis
- ✓ System Design
- ✓ Documentation
- ✓ Testing
- ✓ Training
- ✓ Data Conversion
- ✓ Launch
- ✓ Tools
- ✓ Support
- ✓ Improve Decision making

# The Information System: An Accountant's Perspective

An Information Systems Framework

# Internal and external Flows of Information





# System & Subsystem

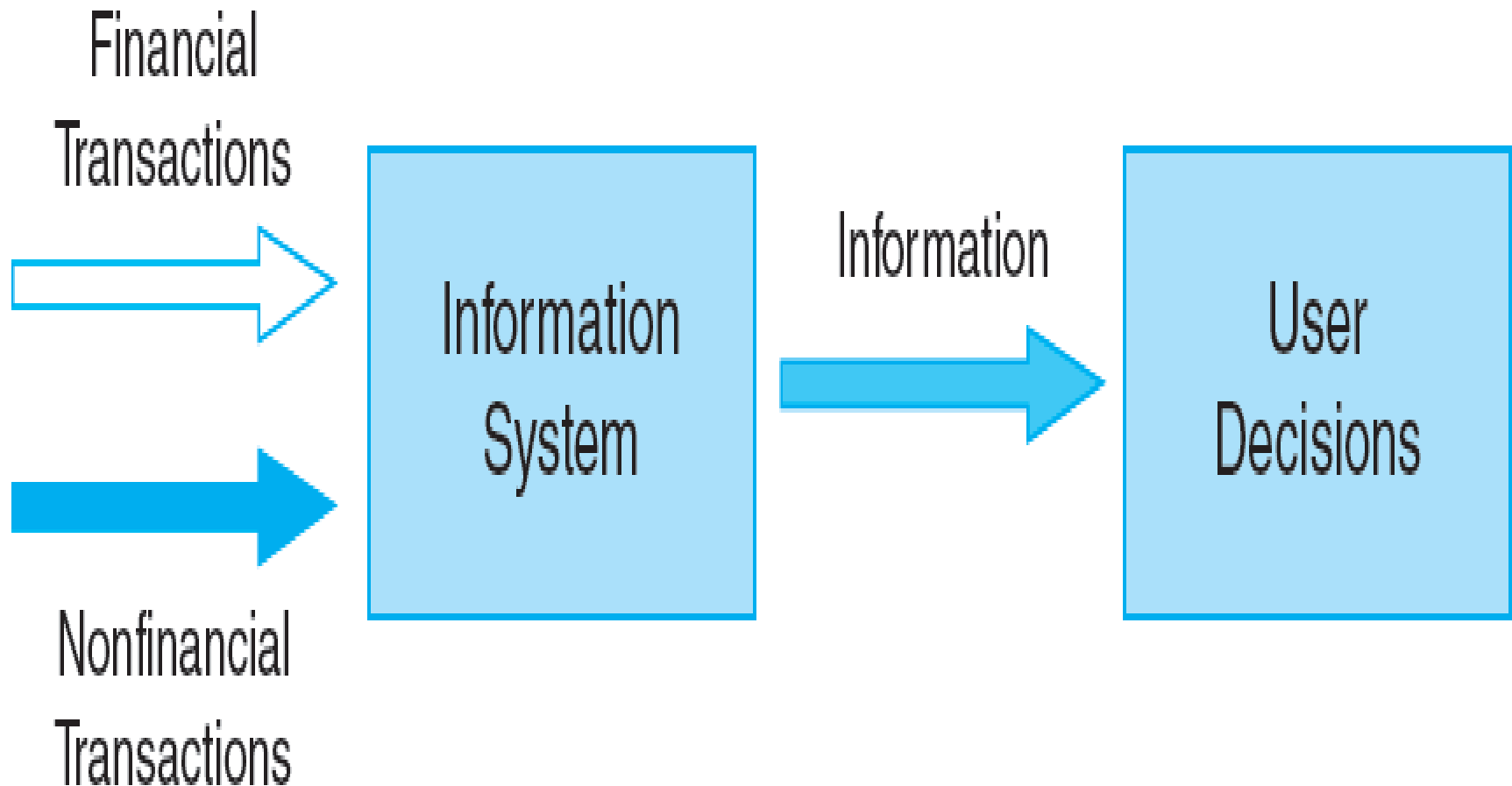
- The subsystems should be designed to maximize achievement of the organization's goals.
- The system concepts encourage integration for example minimizing the duplication of recording, storing, reporting, and processing.

What is the benefit of dividing a system into subsystems?

- **Goals:**
  - Satisfy the requirements
  - Satisfy the customer
  - Reduce development costs
  - Provide reliability
  - Support maintainability
  - Plan for future modifications



# Transactions Processed by the Information System



# Financial Transaction and non- Financial Transaction

- ▶ **A transaction** is a business event.
- ▶ **Financial transactions**
  - economic events that affect the assets and equities of the organization
  - e.g., purchase of an airline ticket
- ▶ **Nonfinancial transactions**
  - all other events processed by the organization's information system
  - e.g., an airline reservation — no commitment by the customer

# AIS Composed of three major subsystems on organization

- **Transaction Processing Systems (TPS)**
- **Management Reporting system (MRS)**
- **General Ledger/Financial reporting System (GL/FRS)**

# Transactions

- **Any economic event** that affects a company's assets, liabilities or equity at the time of the event.
- Basic business operations such as customer orders, purchase orders, receipts, time cards, invoices, and payroll checks in an organization.

# Transaction Processing System

- It is a program or software that processes all transactions that go in and out of a business or a company.
- Transaction processing system supports day to day operations of the business.
  - Purchase at store
  - Withdrawing money from bank
  - Making payments
  - Airline Reservation System

# A Transaction processing cycle

- Data collection
- Data editing
- Data correction
- Data manipulation
- Data storage
- Document production

# Financial Reporting System

- Financial reporting is the process of producing the reports, called statements, that disclose an organization's financial status to management, investors and the Central government.
- While financial statements can be compiled using Microsoft Excel, experts recommend automating the financial reporting process by either using an enterprise resource planning (ERP) system's finance module or industry-specific financial reporting software.

# MANAGEMENT INFORMATION SYSTEM(MIS)

- The MIS is defined as a system based on the database of the involved for the purpose of providing information to the people in the organization.





- Management information systems are **distinct from regular information systems** in that they are used to analyze other information systems applied in operational activities in the organization. MIS involve three primary resources: technology, information, and people.
- Management information systems are regarded to be a subset of the overall internal controls procedures in a business, **which cover the application of people**, documents, technologies, and procedures used by management accountants to solve business problems such as costing a product, service or a business-wide strategy.

# Function of MIS

- Data capturing
- Data storage
- Data processing
- Data and information distribution
- Planning
- Control

# What is ERP(Enterprise Resource Planning)

- ERP is an important enterprise application that integrates all the individual department functions into a single application.
- ERP systems make easier to track the workflow across various departments. They reduce the operational costs involved in manually tracking and duplicating data using individual & disparate system.

# E-Commerce

- Using the Internet to perform business transaction is termed E-commerce.
- When transactions are between a company and a consumer, it is termed **B2C** (business-to-consumer) E-commerce.