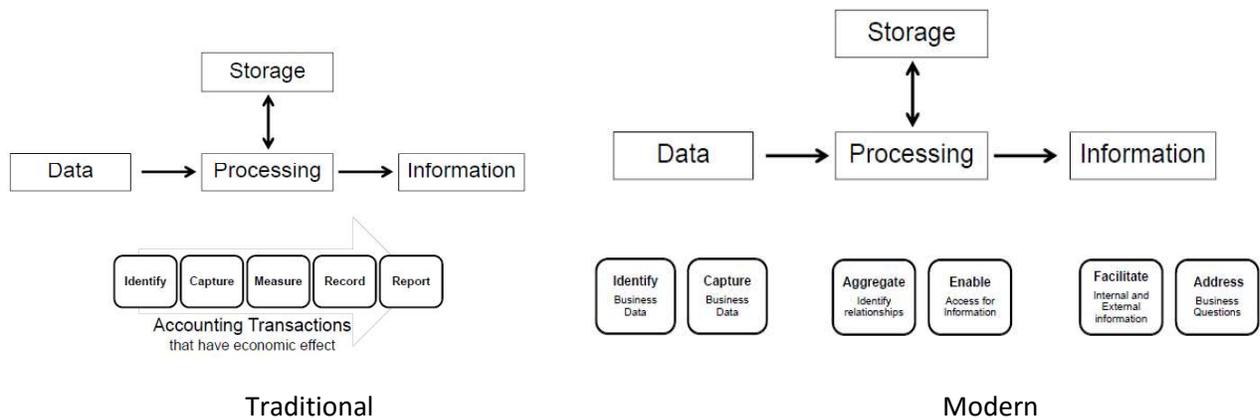


# Accounting Process Analysis

## Lecture 1: Accounting information, Business process and Firm value

LO1: Describe the changing role of accounting function in business and explain the factors behind these changes.

1. What is traditional accounting?
  - a. Process/ system
    - Consideration of how data is identified and collected to enable the preparation of appropriate information.
  - b. Economic
    - Focus is on business events that directly or indirectly have an economic effect on the business.
  - c. Measurement
    - Evaluating how to best measure the economic effect identified via the process/system.
2. What is modern accounting?
  - Business process focussed
3. Traditional > Modern



Traditional	Modern
<ul style="list-style-type: none"> <li>- Record keeper – transaction focus</li> <li>- Focus on information for accounting reports</li> <li>- Preparer and steward for decision making</li> <li>- Value reported</li> </ul>	<ul style="list-style-type: none"> <li>- Member of leadership group</li> <li>- Broad focus on business activity leading to meeting financial performance and position goals</li> <li>- Active role in decision making</li> <li>- Value creator</li> </ul>

- Movement from transaction **to decision support and process focus.**
- Accountants should do BOTH core accounting activities and advice in strategic and operational matters

## L02: Describe and explain the characteristics of accounting information

### Fundamental Qualitative Characteristics

- a. **Relevance** – financial information **capable** of making a difference
  - Not necessarily new information
  - Only has to be capable, not actually make a difference
  - Capability is about predictive/confirmatory value
  - **Materiality** is an element of relevance – how much of difference In nature/amount
- b. **Faithful representation** – **complete, neutral, free from error**
  - **Complete** – All information necessary for user to understand the phenomena including descriptions and explanations
  - **Neutral** – without bias in the selection or presentation of financial information
  - **Free from error** – does not mean accurate in all respects *Faithful representation achieved if no errors or omissions affect the description of economic phenomena*

### Enhancing qualitative characteristics

- a. Comparable
  - Enables comparison between different periods within a set of financial statements and across different reporting entities
- b. Verifiable
  - Consensus among knowledgeable and independent observers that a particular depiction of an event /transaction is a faithful representation.
- c. Timely
  - Ties in with relevance, minimize time lag
- d. Understandable
  - Reasonable knowledge of business and economic activities to analyze and interpret the info

### Pervasive constraints

- Cost/benefit principle
- Impt that the benefits arising from financial reporting exceed the cost of preparation
- *Relevant and faithful representation is assumed to result in more efficient functioning of financial markets and reduces cost of capital for reporting entity*

Fundamental characteristics	Relevance	Faithful representation		
Enhancing characteristics	Comparability	Verifiability	Timeliness	Understandability
Pervasive constraint	Cost			

LO3: Identify and explain relevant characteristics when presented with financial information

**STATEMENT OF FINANCIAL POSITION**

COCA-COLA AMATIL LIMITED AND ITS SUBSIDIARIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Refer Note	2014 \$M	2013 \$M
<b>Current assets</b>			
Cash assets	6	818.2	1,425.9
Trade and other receivables	7	970.8	958.7
Inventories	8	686.1	657.9
Prepayments		72.7	87.1
Current tax assets		21.1	4.7
Derivatives	28	24.6	24.0
<b>Total current assets</b>		<b>2,593.5</b>	<b>3,158.3</b>

Relevance – *current assets included because of its ability to pay bills/convert into cash*

Faithful presentation – *confident that products will sell and generate cash, faithful that no products will go out of date quickly (concerns about inventory)*

Comparability – *can compare between 2013 and 2014, compare with other compabies*

Verifiability – *Consistency allows you to compare “consensus” on what is considered current*

Understandability -

Timeliness – *Not timely “31 dec 2014”*

**Information Hypothesis**

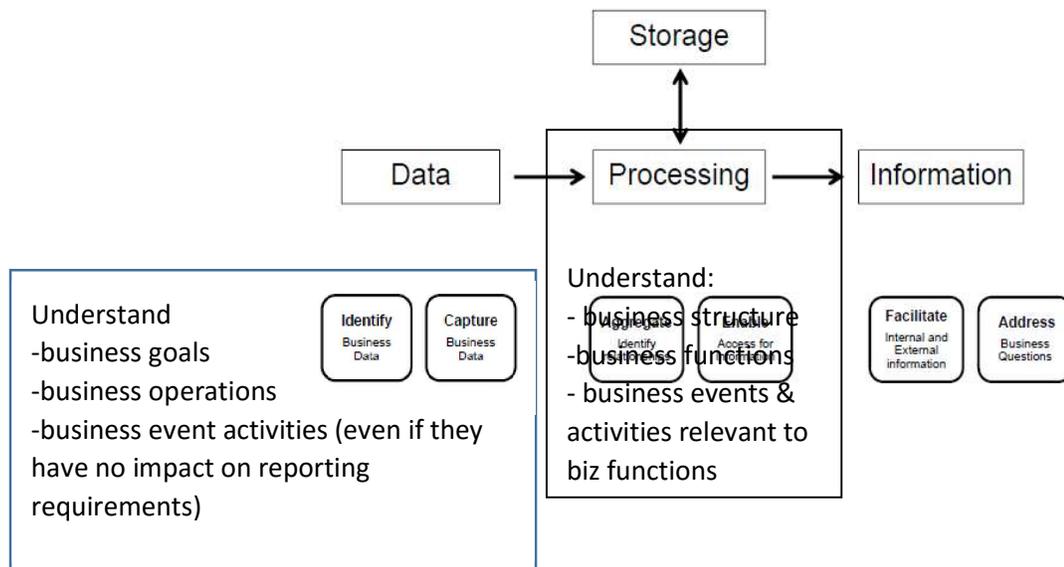
- Quality information > quality decisions
- Better quality information leads to more efficient market
- So, there is demand for quality info > assurance service regarding quality info and acc systems that enable production of quality info.

**Attributes of Useful Information**

To be most useful to decision makers, information from an AIS must be both relevant and reliable and have these attributes:

- 1. Relevance**
  - a. Predictive value (helps with forecasting the future).
  - b. Feedback value (corrects or confirms what had been predicted in the past).
  - c. Timeliness (available when needed or in time to have an impact on a decision).
- 2. Reliability**
  - a. Verifiable (can be confirmed by an independent party).
  - b. Representational faithfulness (reports what actually happened).
  - c. Neutrality (information is not biased).

LO4: Describe the role of the accountant in using, designing and evaluating information systems



## LO5: Draw simple business process diagrams

How do we understand business operations and functions?

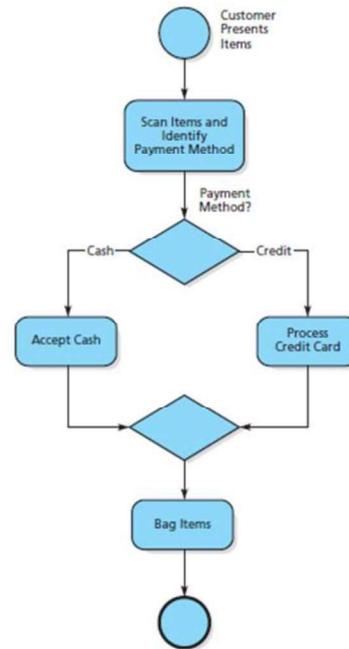
- Narrative
- Activity model (Benefits – shows relationships, sequential flow between events and activities, focus on “process”)

Why model business process?

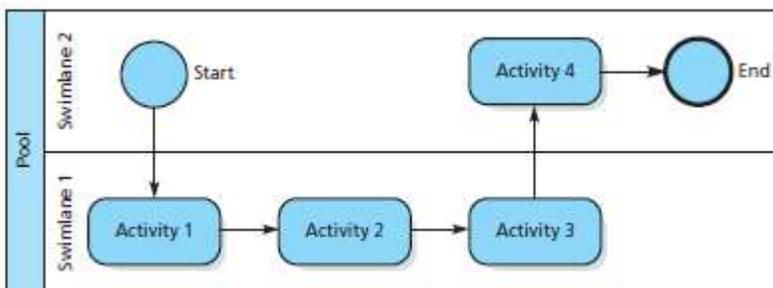
- Better understanding of organization
- Identify flaws with process
- Recognize that internal controls can be implemented
- Assess the possible problems with the intended outcome of quality information

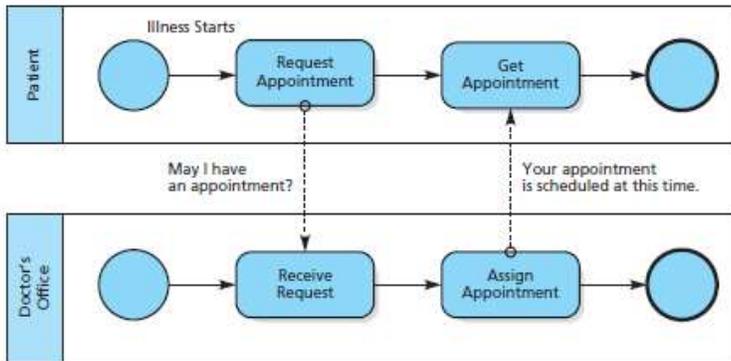
### Business Process Modelling Notation (BPMN)

Element	Description	Symbol
Events	Events are things that happen; they affect the flow of the business process when they occur. For example, a start event begins a process, an intermediate event may change the flow, and an end event signals the end of the process.	 start  intermediate  end
Activities	Activities are where the work takes place; they can represent processes, subprocesses, or tasks depending on the diagram's level of detail.	 Activity
Sequence Flows	An arrow shows the normal sequence flow—i.e., the order of activities—in a business process diagram.	 Sequence Flow
Gateways	Gateways control the branching and merging of flow paths in the business process.	 Gateway
Annotations	Text annotations allow the analyst to add descriptive information to the diagram.	 text annotation



**Swimlanes** can be used to show interaction between participants.





1. Activities **within** a pool is organized by **sequence flow**
  2. Interaction **between** pools are represented by **messages flow**.
- Message flow> dashed arrow with a small circle at starting end

### Delivering Value (business process oriented)

- Growth in profits
- Growth in assets
- Growth in share price
- Growth in brand recognition
- Expansion in the organization
- Achieving identified goals

*(Value is different for every organisation)*

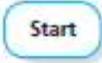
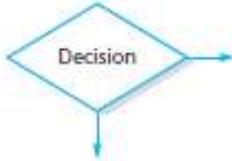
### Key business questions

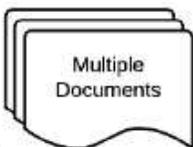
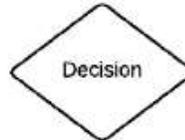
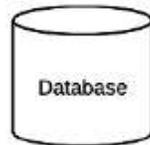
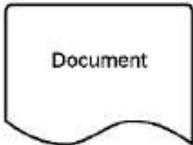
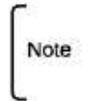
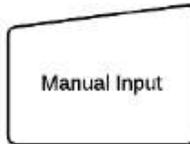
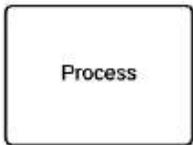
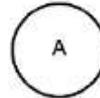
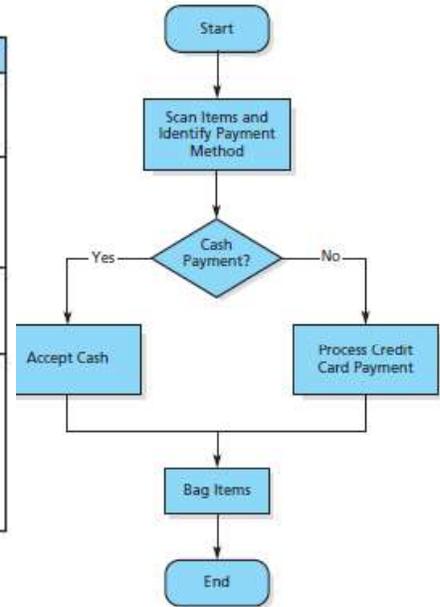
- |  |   |  |
|--|---|--|
| <ul style="list-style-type: none"> <li>• What happened?</li> <li>• How many, how often?</li> </ul> | <ul style="list-style-type: none"> <li>• Where exactly is the problem?</li> <li>• Why is this happening?</li> <li>• What actions are needed?</li> </ul> | <ul style="list-style-type: none"> <li>• What will happen next?</li> <li>• What if these trends continue?</li> <li>• What are the risks or opportunities?</li> </ul> |
|--|---|--|

Rear view	Current view	Forward-looking view
<ul style="list-style-type: none"> <li>• Balance sheet, profit and loss, and cash flow statements</li> <li>• Revenue and cost variance analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Customer, product and market profitability</li> <li>• Spend optimization</li> <li>• Working capital analysis</li> <li>• Market, customer and channel pricing</li> <li>• Sales and supply chain effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Cash forecasting</li> <li>• Scenario-based planning and forecasting</li> <li>• Strategic investment decision support</li> <li>• Volatility and risk-based predictive and behavioral modeling</li> </ul>

So accounting role is changing from **scorekeepers > value integrators**

# Flow Charts

Element	Description	Symbol
Start/End	The Start/End steps indicate the beginning and ending of the process flow.	
Tasks/Activities	Tasks/Activities are the steps that describe the work; they can represent individual tasks or collections of tasks depending on the diagram's level of detail.	
Sequence Flows	An arrow shows the normal direction of flow—i.e., the order of activities—in a diagram.	
Decisions	Decision diamonds portray the nature of the decision and the exit options.	



# Lecture 2: Data Modelling and Databases (need lectures)

LO1: Describe and explain the role of database management systems in ensuring information quality in transaction

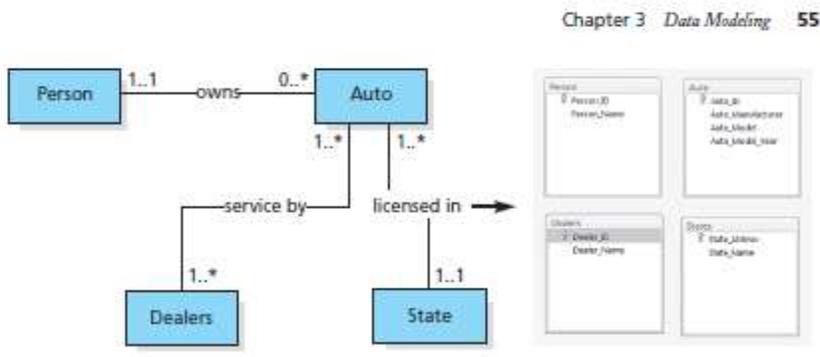
## Data Modelling

BPMN is about activities

Data modelling is about capturing data

### Terminology

1. **Classes** – objects that organization wishes to collect data about and from   
 Example:
  - a. Organizational resources: trucks, machines
  - b. Person – Customer, Employee
  - c. Events – Sales, purchases
  - d. Conceptual structures eg accounts
2. **Graphical associations (linking)**
3. **Multiplicities** – the ways(times) one class can be associated with another class
4. **Attributes** – details about the class (data to be captured)



Notice: Relationship focus

Multiplicities show – minimum..maximum  
See interpretation in lectures

LO2: Interpret and analyze a simple Entity-Relationship (ER)

### Diagram

1. Entities
  - Person, place object, event, concept
  - Things about which we wish to collect
  - Entity type vs Entity instance (Lecturer vs Micahel)
2. Attributes
  - Characteristics descriptive of an entity
3. Relationships
  - Association between entities (Verbs – directional)

Employee

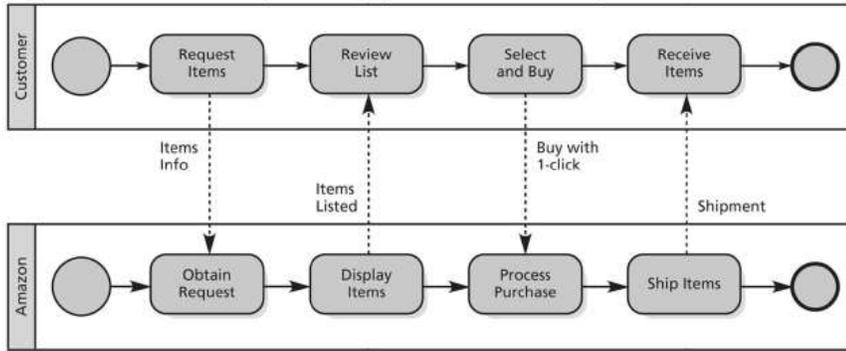
EmpName

Works

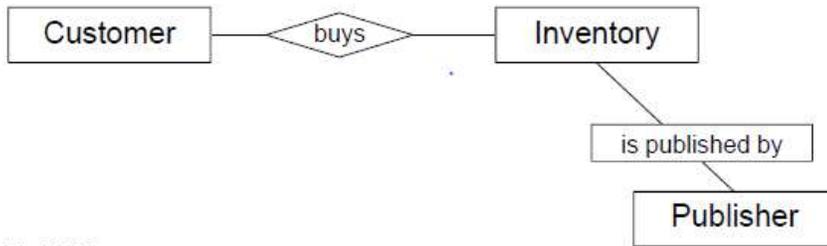
Example:

- Amazon – sale event

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BPMN diagram



ER Diagram

**utilization**  
(interpretation in lectures)

LO3: Translate a simple entity relationship diagram into a set of normalized relations, including the appropriate specification of primary and foreign keys

LO4: Draw and explain simple REA diagrams

### Lecture 3: Sales & Collection Business Processes (need lectures)

LO1: Describe & explain the business activities that comprise the sales and collection service.

#### Business events

- Accepting customer orders
  - Approving credit
  - Filling and dispatching orders
  - Invoicing customers
  - Recording the sales
- } Sales events
- Receiving cash
  - Recording receipts
  - Depositing cash in bank
- } Cash Receipt events
- Sales returns and allowances
  - Bad and Doubtful debts
- } Adjustment events