

ACCT10003
Accounting Process and Analysis
Revision Notes and Control Plans Summary

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Lecture 1

Economic events and accounting information quality

Economic events result in an exchange of resources = business transaction

- A business event includes the activities leading up to, including and following the economic event.
- The objective of accounting information systems is to assist management manage the business and translate the economic events into accounting information, including the production of financial statements for internal and external users.

Economic Events into Financial Statements

- Financial statements, such as the **Income Statement** and **Balance Sheet**, **aggregate the representation of the economic events** of the firm based upon the business transactions captured and recorded in the firm's accounting information system.

Desirable qualities of data and information:

1. Validity

Data recorded captures **authorized actual economic events and objects**

- Transactions: all transactions included represent actual events that occurred during the period. (Occurrence)
- Balances: all balances represent actual assets and liabilities that exist at balance date. (Existence)

2. Accuracy

The correspondence between the **data and the events**.

- Transactions: all transactions **correctly** represent the details of the valid economic event that economic event that occurred. (Accuracy)
- Balances: all balances are recorded at the **correct** value (Valuation)

3. Completeness

The degree to which information includes data about **every relevant object or event**

- Transactions: **All transactions** that should have been recorded have been recorded (**Event Level**); **All details** [Fields] of a transaction that should be recorded are recorded (**Detail level**)
- Balances: All assets, liabilities, and equity items that relate to the entity and should have been recorded actually have been recorded.

4 sub-process in the transformation of an economic event into information.

Occurs - Recorded - Updated – Generated (output)

Organization can choose different **Processing Mode** to capture, record and update data, each mode has different risks and benefits.

1. Periodic (Batch) Processing

- a. Economic events are aggregated and data are recorded and **updated periodically** in batches. (A **batch** is an accumulation of several transactions which are processed at the same time)

2. Online Entry Processing

- a. Data is **recorded** in an event file at the event occurs, Master data is **updated** later in batches.

3. Real-time processing

- a. Data is recorded and updated **instantaneously**

Suitability of choice related to data content, purpose, cost and available technology.

As the **Temporal gap** increases between business event and recording in the master data:

- **Validity** – Increase the opportunity for **invalid events** to be entered into system.
- **Validity & Accuracy** –Less opportunity to use **automated controls** that require master data to ensure information validity & accuracy.
- **Completeness** –Risk that **information** about an event **is lost** and the master data is not complete.

Technologies

Technology	Example	Advantages	Disadvantages
Manual keying	Data entry personnel	Efficient for small volumes of input	Time consuming Prone to error if appropriate input controls do not exist
MICR	Cheques at banks	Security benefits Processing efficiency	Different countries use different styles of MICR fonts Requires a special magnetized ink Not foolproof and can be used