

Accounting Information Systems

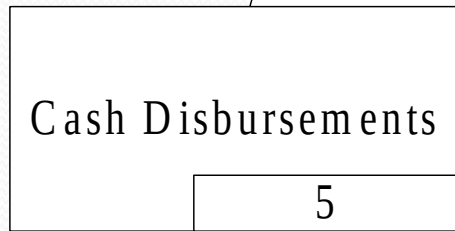
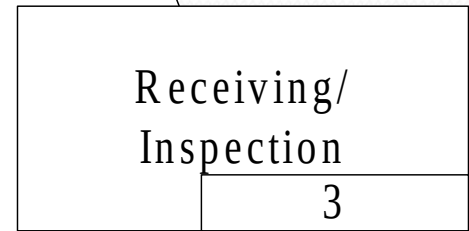
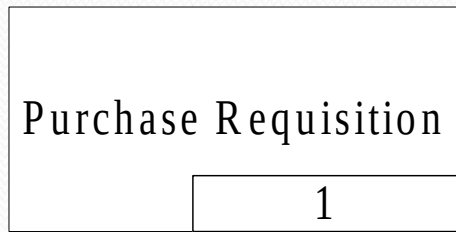
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Lecture 5

Transaction Cycles: The Expenditure Cycle: Purchases and Cash Disbursements

Objectives for Lecture 5

- Tasks performed during purchases and cash disbursement processes
- Departments involved in purchases and cash disbursement activities and the flow of these transactions through the organization
- Documents, journals, and accounts that provide audit trails, promote the maintenance of records, and support decision making and financial reporting
- Risks associated with purchase and cash disbursements activities and the controls that reduce these risks
- Operational features and the control implications of technology used in purchases and cash disbursement systems



PROCUREMENT CYCLE
(SUBSYSTEM)



Goals of the Expenditure Cycle

- The goal of providing needed resources to organization can be broken down into several objectives:
 - purchase from reliable vendors
 - purchase high quality items
 - obtain best possible price
 - purchase only items that are properly authorized
 - have resources available when they are needed
 - receive only those items ordered
 - ensure items are not lost, stolen,
or broken
 - pay for the items in a timely manner

Computer-Based Accounting Systems

- CBAS technology can be viewed as a continuum with two extremes:
 - **automation** - use technology to improve efficiency and effectiveness
 - **reengineering** – use technology to restructure business processes and firm organization

Levels of Automating and Reengineering Ordering

- Computer generates PR
 - Purchases manually generates PO
- Computer generates PO (no PR needed)
 - PO not sent until manually reviewed
- Computer-generated PO is automatically sent without manual review
- Electronic Data Interchange (EDI)
 - Computer-to-computer communication without PO

Expenditure Cycle Database

● Master Files

- supplier (vendor) master file
- accounts payable master file
- merchandise inventory master file

● Transaction and Open Document Files

- purchase order file
 - open purchase order file
- supplier's invoice file
- open vouchers file
- cash disbursements file

■ Other Files

- supplier reference and history file
- buyer file
- accounts payable detail file

Computer-Based Cash Disbursements

- Tasks performed automatically by the computer:
 - the system scans for vouchers currently due
 - prints cheques for these vouchers
 - records these cheques in the cheque register
 - batch totals are prepared for the general ledger update procedure

Advantages of Real-Time Data Input & Processing Over Batch Processing

- Shortens the time-lag in record-keeping; hence, records are more current
- Eliminates much of the routine manual procedures, such as transcribing information onto paper documents
- Eliminates much of the storage and shuffling of paper documents
- Reduces data entry correction procedures

Summary of Internal Controls

CONTROL POINTS IN THE EXPENDITURE CYCLE

Control Activity	Purchases Processing System	Cash Disbursements System
Transactions authorization	Inventory control	Accounts payable authorizes payment.
Segregation of duties	Inventory control separate from purchasing and inventory custody. AP subsidiary ledger separate from the general ledger.	Separate AP subsidiary ledger, cash disbursements, and general ledger functions.
Supervision	Receiving department	
Accounting records	AP subsidiary ledger, general ledger, purchases requisition file, purchase order file, receiving report file.	Voucher payable file, AP subsidiary ledger, cash disbursements journal, general ledger cash accounts.
Access	Security of physical assets. Limit access to the accounting records above.	Proper security over cash. Limit access to the accounting records above.
Independent verification	Accounts payable reconciles source documents before liability is recorded. General ledger reconciles overall accuracy of process.	Final review by cash disbursements. Overall reconciliation by general ledger. Periodic bank reconciliation by controller.

General Internal Controls

- Organisation controls
 - segregation of duties
- Documentation
- Asset Accountability Controls
- Management Practices
- Data Center Operations Controls
- Authorisation Controls
- Access Controls

Computer-Based Authorization Controls

- Authorisations are automated.
 - programmed decision rules must be debugged
- Automating inventory in EDI and JIT
 - faulty inventory model can lead to over-purchasing or under-purchasing
- Cash disbursements may automate cheque printing and signing.
 - programming logic must be flawless
 - automated signing only below a dollar threshold

Traditional Segregation of Duties

- Warehouse (stores)
- Inventory control
- Accounts payable
- General ledger
- Requisitioning
- Purchases
- Purchases returns and allowances
- Cash disbursements

Computer-Based Segregation of Functions

- Extensive consolidation by the computer of tasks traditionally segregated
 - computer programs authorise and process purchase orders
 - computer programs authorise and issue cheques to vendors

Computer-Based Supervision

- Automation often leads to a collapsing of the traditional segregation of duties.
 - requires greater supervision
- Supervision takes on new aspects as technology advances.
 - electronic monitoring
- Supervision because more difficult as the workplace becomes more sophisticated.
 - employees may have advanced IT training

Computer-Based Accounting Records

- Accounting records rest on the reliability and security of stored digitalized data.
 - Accountants should be skeptical about the accuracy of hard-copy printouts.
 - Backups - the system needs to ensure that backups of all files are continuously kept
- Most automated systems still have a lot of paper documents.
 - This is good for audit trail purposes but is often inefficient.
 - As the system becomes increasingly paperless, maintaining an audit trail becomes more difficult.

Computer-Based Access Controls

- Magnetic records are vulnerable to both authorised and unauthorised exposure and should be protected
 - must have limited file accessibility
 - programs must be safeguarded and monitored

Computer-Based Independent Verification

- Automating the accounting function reduces the need for verification by reducing the chances of fraud and error in the expenditure cycle.
- However, the need for verification shifts to the computer program and the programmers where fraud and error may still be present.