

Contents

Preface 15

PART I Conceptual Foundations of Accounting Information Systems 21

CHAPTER 1 Accounting Information Systems: An Overview 22

Introduction 23

Information Needs and Business Processes 25

Information Needs 25

Business Processes 25

Accounting Information Systems 30

How an AIS Can Add Value to an Organization 31

The AIS and Corporate Strategy 33

The Role of the AIS in the Value Chain 33

Summary and Case Conclusion 35 ■ Key Terms 35

AIS IN ACTION: Chapter Quiz 36 ■ Discussion Questions 36 ■ Problems 37

CASE 1-1 Ackoff's Management Misinformation Systems 41

AIS IN ACTION SOLUTIONS: Quiz Key 41

CHAPTER 2 Overview of Transaction Processing and Enterprise Resource Planning Systems 44

Introduction 46

Transaction Processing: The Data Processing Cycle 46

Data Input 46

Data Storage 48

Data Processing 53

Information Output 54

Enterprise Resource Planning (ERP) Systems 55

Summary and Case Conclusion 58 ■ Key Terms 59

AIS IN ACTION: Chapter Quiz 59 ■ Discussion Questions 60 ■ Problems 60

CASE 2-1 Bar Harbor Blueberry Farm 64

AIS IN ACTION SOLUTIONS: Quiz Key 66

CHAPTER 3 Systems Documentation Techniques 68

Introduction 69

Data Flow Diagrams 70

Subdividing the DFD 72

Flowcharts 75

Document Flowcharts 77

System Flowcharts 80

Program Flowcharts 82

Summary and Case Conclusion 82 ■ Key Terms 83

CHAPTER 6	Computer Fraud and Abuse Techniques	168
	Introduction	169
	Computer Attacks and Abuse	169
	Social Engineering	176
	Malware	179
	Summary and Case Conclusion	187 ■ Key Terms 188
	AIS IN ACTION: Chapter Quiz	189 ■ Discussion Questions 190 ■ Problems 191
	CASE 6-1 Shadowcrew	198
	AIS IN ACTION SOLUTIONS: Quiz Key	199
CHAPTER 7	Control and Accounting Information Systems	202
	Introduction	204
	Why Threats to Accounting Information Systems Are Increasing	204
	Overview of Control Concepts	204
	The Foreign Corrupt Practices and Sarbanes–Oxley Acts	205
	Control Frameworks	206
	COBIT Framework	206
	COSO’s Internal Framework	207
	COSO’s Enterprise Risk Management Framework	207
	The Enterprise Risk Management Framework versus the Internal Control Framework	207
	The Internal Environment	208
	Management’s Philosophy, Operating Style, and Risk Appetite	208
	The Board of Directors	209
	Commitment to Integrity, Ethical Values, and Competence	209
	Organizational Structure	210
	Methods of Assigning Authority and Responsibility	210
	Human Resources Standards	210
	External Influences	212
	Objective Setting	212
	Event Identification	212
	Risk Assessment and Risk Response	213
	Estimate Likelihood and Impact	213
	Identify Controls	213
	Estimate Costs and Benefits	214
	Determine Cost/Benefit Effectiveness	214
	Implement Control or Accept, Share, or Avoid the Risk	215
	Control Activities	215
	Proper Authorization of Transactions and Activities	215
	Segregation of Duties	216
	Project Development and Acquisition Controls	218
	Change Management Controls	219
	Design and Use of Documentation and Records	219
	Safeguard Assets, Records, and Data	219
	Independent Checks on Performance	220
	Information and Communication	221
	Monitoring	221
	Perform ERM Evaluations	221
	Implement Effective Supervision	221
	Use Responsibility Accounting Systems	221
	Monitor System Activities	221
	Track Purchased Software and Mobile Devices	222
	Conduct Periodic Audits	222
	Employ a Computer Security Officer and a Chief Compliance Officer	222
	Engage Forensic Specialists	222

Install Fraud Detection Software	223
Implement a Fraud Hotline	223
Summary and Case Conclusion	223 ■ Key Terms 224
AIS IN ACTION: Chapter Quiz	225 ■ Discussion Questions 226 ■ Problems 227
CASE 7-1 The Greater Providence Deposit and Trust Embezzlement	234
AIS IN ACTION SOLUTIONS: Quiz Key	235

CHAPTER 8 Information Systems Controls for System Reliability—Part 1: Information Security 238

Introduction	239
Two Fundamental Information Security Concepts	242
1 Security Is a Management Issue, Not a Technology Issue	242
2 Defense-in-Depth and the Time-Based Model of Information Security	243
Understanding Targeted Attacks	244
Preventive Controls	245
Training	246
User Access Controls	246
Physical Access Controls	249
Network Access Controls	250
Device and Software Hardening Controls	256
Detective Controls	257
Log Analysis	257
Intrusion Detective Systems	258
Managerial Reports	258
Security Testing	258
Corrective Controls	259
Computer Incident Response Team	259
Chief Information Security Officer (CISO)	260
Patch Management	260
Security Implications of Virtualization and the Cloud	260
Summary and Case Conclusion	261 ■ Key Terms 262
AIS IN ACTION: Chapter Quiz	262 ■ Discussion Questions 263 ■ Problems 264
CASE 8-1 Costs of Preventive Security	267
CASE 8-2 Developing an Information Security Checklist	267
AIS IN ACTION SOLUTIONS: Quiz Key	267

CHAPTER 9 Information Systems Controls for System Reliability—Part 2: Confidentiality and Privacy 270

Introduction	270
Preserving Confidentiality	271
Identification and Classification of Information to Be Protected	271
Protecting Confidentiality with Encryption	271
Controlling Access to Sensitive Information	272
Training	273
Privacy	274
Privacy Controls	274
Privacy Concerns	275
Privacy Regulations and Generally Accepted Privacy Principles	276
Encryption	278
Factors That Influence Encryption Strength	279
Types of Encryption Systems	279
Hashing	280
Digital Signatures	281
Digital Certificates and Public Key Infrastructure	282
Illustrative Example: The Role of Encryption and Hashing in E-Business	282
Virtual Private Networks (VPNs)	284

Summary and Case Conclusion	285	■	Key Terms	285
AIS IN ACTION: Chapter Quiz	286	■	Discussion Questions	287
		■	Problems	287
CASE 9-1 Protecting the Privacy of Tax Returns	290			
CASE 9-2 Generally Accepted Privacy Principles	290			
AIS IN ACTION SOLUTIONS: Quiz Key	291			

CHAPTER 10 Information Systems Controls for System Reliability—Part 3: Processing Integrity and Availability 294

Introduction	294
Processing Integrity	295
Input Controls	296
Processing Controls	297
Output Controls	298
Illustrative Example: Credit Sales Processing	299
Processing Integrity Controls in Spreadsheets	303
Availability	304
Minimizing Risk of System Downtime	304
Recovery and Resumption of Normal Operations	305
Change Control	309
Summary and Case Conclusion	309
■	
Key Terms	310
AIS IN ACTION: Chapter Quiz	310
■	
Discussion Questions	311
■	
Problems	312
CASE 10-1 Ensuring Systems Availability	318
CASE 10-2 Change Controls	319
AIS IN ACTION SOLUTIONS: Quiz Key	319

CHAPTER 11 Auditing Computer-Based Information Systems 322

Introduction	323
The Nature of Auditing	324
Overview of the Audit Process	324
The Risk-Based Audit Approach	326
Information Systems Audits	327
Objective 1: Overall Security	327
Objective 2: Program Development and Acquisition	329
Objective 3: Program Modification	330
Objective 4: Computer Processing	331
Objective 5: Source Data	334
Objective 6: Data Files	335
Audit Software	337
Operational Audit of an AIS	338
Summary and Case Conclusion	338
■	
Key Terms	339
AIS IN ACTION: Chapter Quiz	339
■	
Discussion Questions	340
■	
Problems	341
CASE 11-1 Preston Manufacturing	345
AIS IN ACTION SOLUTIONS: Quiz Key	345

PART III Accounting Information Systems Applications 349

CHAPTER 12 The Revenue Cycle: Sales to Cash Collections 350

Introduction	352
Revenue Cycle Information System	354
Process	354
Threats and Controls	355
Sales Order Entry	357
Taking Customer Orders	358
Credit Approval	359
Checking Inventory Availability	361
Responding to Customer Inquiries	362

Shipping 364

Pick and Pack the Order 364

Ship the Order 365

Billing 368

Invoicing 368

Maintain Accounts Receivable 370

Cash Collections 373

Process 373

Threats and Controls 375

Summary and Case Conclusion 377 ■ Key Terms 377

AIS IN ACTION: Chapter Quiz 378 ■ Discussion Questions 379 ■ Problems 379

CASE 12-1 Research Project: The Impact of IT on Revenue Cycle Activities, Threats, and Controls 387

AIS IN ACTION SOLUTIONS: Quiz Key 387

CHAPTER 13 The Expenditure Cycle: Purchasing to Cash Disbursements 390

Introduction 391

Expenditure Cycle Information System 392

Process 394

Threats and Controls 395

Ordering Materials, Supplies, and Services 398

Identifying What, When, and How Much to Purchase 398

Choosing Suppliers 400

Receiving 404

Process 404

Threats and Controls 405

Approving Supplier Invoices 406

Process 407

Threats and Controls 409

Cash Disbursements 410

Process 410

Threats and Controls 410

Summary and Case Conclusion 412 ■ Key Terms 413

AIS IN ACTION: Chapter Quiz 413 ■ Discussion Questions 414 ■ Problems 415

CASE 13-1 Research Project: Impact of Information Technology on Expenditure Cycle Activities, Threats, and Controls 421

AIS IN ACTION SOLUTIONS: Quiz Key 421

CHAPTER 14 The Production Cycle 424

Introduction 426

Production Cycle Information System 427

Process 427

Threats and Controls 428

Product Design 429

Process 430

Threats and Controls 430

Planning and Scheduling 431

Production Planning Methods 431

Key Documents and Forms 432

Threats and Controls 435

Production Operations 436

Threats and Controls 436

Cost Accounting 438

Process 438

Threats and Controls 439

Summary and Case Conclusion 444 ■ Key Terms 445
 AIS IN ACTION: Chapter Quiz 445 ■ Discussion Questions 446 ■ Problems 446
CASE 14-1 The Accountant and CIM 451
 AIS IN ACTION SOLUTIONS: Quiz Key 451

CHAPTER 15 The Human Resources Management and Payroll Cycle 454

Introduction 455

HRM/Payroll Cycle Information System 456

Overview of HRM Process and Information Needs 456

Threats and Controls 458

Payroll Cycle Activities 461

Update Payroll Master Database 462

Validate Time and Attendance Data 463

Prepare Payroll 466

Disburse Payroll 469

Calculate and Disburse Employer-Paid Benefits, Taxes, and Voluntary Employee Deductions 470

Outsourcing Options: Payroll Service Bureaus and Professional Employer Organizations 471

Summary and Case Conclusion 472 ■ Key Terms 473

AIS IN ACTION: Chapter Quiz 473 ■ Discussion Questions 474 ■ Problems 474

CASE 15-1 Research Report: HRM/Payroll Opportunities for CPAs 479

AIS IN ACTION SOLUTION: Quiz Key 480

CHAPTER 16 General Ledger and Reporting System 482

Introduction 483

General Ledger and Reporting System 485

Process 485

Threats and Controls 485

Update General Ledger 487

Process 487

Threats and Controls 487

Post Adjusting Entries 490

Process 490

Threats and Controls 491

Prepare Financial Statements 491

Procedures 491

Threats and Controls 496

Produce Managerial Reports 497

Process 497

Threats and Controls 497

Summary and Case Conclusion 502 ■ Key Terms 502

AIS IN ACTION: Chapter Quiz 503 ■ Discussion Questions 504 ■ Problems 504

CASE 16-1 Keeping Current with XRBL 507

CASE 16-2 Evaluating a General Ledger Package 508

AIS IN ACTION SOLUTIONS: Quiz Key 508

PART IV The REA Data Model 511

CHAPTER 17 Database Design Using the REA Data Model 512

Introduction 513

Database Design Process 513

Entity-Relationship Diagrams 514

The REA Data Model 516

Three Basic Types of Entities 516

Structuring Relationships: The Basic REA Template 517

Developing an REA Diagram 519

Step 1: Identify Relevant Events 519

Step 2: Identify Resources and Agents 521

Step 3: Identify Cardinalities of Relationships 522

Summary and Case Conclusion 528 ■ Key Terms 529

AIS IN ACTION: Chapter Quiz 529 ■ Comprehensive Problem 532 ■

Discussion Questions 533 ■ Problems 533

CASE 17-1 REA Data Modeling Extension 537

AIS IN ACTION SOLUTIONS: Quiz Key 537 ■ Comprehensive Problem Solution 541

CHAPTER 18 Implementing an REA Data Model in a Relational Database 544**Introduction 545****Integrating REA Diagrams Across Cycles 545****Rules for Combining REA Diagrams 548**

Merging Redundant Resource Entities 548

Merging Redundant Event Entities 549

Validating the Accuracy of Integrated REA Diagrams 550

Implementing an REA Diagram in a Relational Database 550

Step 1: Create Tables for Each Distinct Entity and M:N Relationship 550

Step 2: Assign Attributes to Each Table 552

Step 3: Use Foreign Keys to Implement 1:1 and 1:N Relationships 553

Completeness Check 554

Using REA Diagrams to Retrieve Information from a Database 555

Creating Journals and Ledgers 555

Generating Financial Statements 556

Creating Managerial Reports 556

Summary and Case Conclusion 557 ■ Key Terms 557

AIS IN ACTION: Chapter Quiz 557 ■ Comprehensive Problem 558 ■

Discussion Questions 559 ■ Problems 559

CASE 18-1 Practical Database Design 561

AIS IN ACTION SOLUTIONS: Quiz Key 561 ■ Comprehensive Problem Solution 563

CHAPTER 19 Special Topics in REA Modeling 566**Introduction 567****Additional Revenue and Expenditure Cycle Modeling Topics 567**

Additional Revenue Cycle Events and Attribute Placement 567

Additional Expenditure Cycle Events and Attribute Placement 569

Sale of Services 572

Acquisition of Intangible Services 572

Digital Assets 573

Rental Transactions 573

Additional REA Features 575

Employee Roles 575

M:N Agent–Event Relationships 575

Locations 575

Relationships Between Resources and Agents 575

Production Cycle REA Model 575

Additional Entities—Intellectual Property 576

Production Cycle Events 577

New REA Features 578

Combined HR/Payroll Data Model 579

HR Cycle Entities 579

Tracking Employees' Time 580

Financing Activities Data Model 580**Summary and Case Conclusion 582**

AIS IN ACTION: Chapter Quiz 584 ■ Discussion Questions 586 ■ Problems 586

CASE 19-1 Practical Database Assignment 591

AIS IN ACTION SOLUTIONS: Quiz Key 591

APPENDIX: Extending the REA Model to Include Information About Policies 595

PART V The Systems Development Process 597

CHAPTER 20 Introduction to Systems Development; Systems Analysis 598

Introduction 599

Systems Development 601

The Systems Development Life Cycle 601

The Players 602

Planning Systems Development 603

Planning Techniques 603

Feasibility Analysis 605

Capital Budgeting: Calculating Economic Feasibility 606

Behavioral Aspects of Change 608

Why Behavioral Problems Occur 608

How People Resist Changes 608

Preventing Behavioral Problems 609

Systems Analysis 610

Initial Investigation 610

Systems Survey 611

Feasibility Study 614

Information Needs and Systems Requirements 614

Systems Analysis Report 616

Summary and Case Conclusion 616 ■ Key Terms 618

AIS IN ACTION: Chapter Quiz 618 ■ Comprehensive Problem 619 ■

Discussion Questions 620 ■ Problems 621

CASE 20-1 Audio Visual Corporation 627

AIS IN ACTION SOLUTIONS: Quiz Key 628 ■ Comprehensive Problem Solution 630

CHAPTER 21 AIS Development Strategies 632

Introduction 633

Purchasing Software 634

Selecting a Vendor 634

Acquiring Hardware and Software 634

Evaluating Proposals and Selecting a System 635

Development by In-House Information Systems Departments 637

End-User-Developed Software 637

Advantages and Disadvantages of End-User Computing 638

Managing and Controlling End-User Computing 639

Outsourcing the System 639

Advantages and Disadvantages of Outsourcing 640

Business Process Management 641

Internal Controls in a Business Process Management System 642

Prototyping 643

When to Use Prototyping 644

Advantages of Prototyping 644

Disadvantages of Prototyping 645

Computer-Aided Software Engineering 645

Summary and Case Conclusion 646 ■ Key Terms 646

AIS IN ACTION: Chapter Quiz 647

CASE 21-1 Freedom from Telemarketers—The Do Not Call List 648

Discussion Questions 648 ■ Problems 649

CASE 21-2 Professional Salon Concepts 654

AIS IN ACTION SOLUTIONS: Quiz Key 656 ■ Chapter Case Solution 658

CHAPTER 22 Systems Design, Implementation, and Operation 660

Introduction 661

Conceptual Systems Design 661

Evaluate Design Alternatives 661

Prepare Design Specifications and Reports 663

Physical Systems Design 663

Output Design 664

File and Database Design 664

Input Design 665

Program Design 665

Procedures and Controls Design 667

Systems Implementation 668

Implementing Planning and Site Preparation 668

Selecting and Training Personnel 669

Complete Documentation 670

Testing the System 670

Systems Conversion 671

Operation and Maintenance 672

Summary and Case Conclusion 673 ■ Key Terms 674

AIS IN ACTION: Chapter Quiz 674

CASE 22-1 Hershey's Big Bang ERP 675 ■

Discussion Questions 676 ■ Problems 677

CASE 22-2 Citizen's Gas Company 682

AIS IN ACTION SOLUTIONS: Quiz Key 683 ■ Chapter Case Solution 685

Glossary 686

Index 707

Preface

To the Student

The twelfth edition of *Accounting Information Systems* is designed to prepare you for a successful accounting career in public practice, industry, or government. All of you will be users of accounting information systems (AIS). As such, you should participate in the design of those systems. Doing so effectively, however, requires that you have a sound understanding of how they work. In addition to being users, some of you will become managers. Others will become internal and external auditors, and some of you will become consultants. All of these roles require you to understand how accounting information systems work so that you can measure their cost-effectiveness, assess their reliability and the reliability of the information produced, or lead the redesign and implementation of new and better systems. Mastering the material presented in this text will give you the foundational knowledge you need in order to excel at all those tasks.

This text discusses important new information technology (IT) developments, such as virtualization, cloud computing, the use of RFID tags to track inventory, and the adoption of XBRL for financial reporting, because such developments affect business processes and often cause organizations to redesign their accounting systems to take advantage of new capabilities. The focus, however, is not on IT for the sake of IT, but on how IT affects business processes and controls. Indeed, new IT developments not only bring new capabilities, but also often create new threats and affect the overall level of risk. This text will help you understand these issues so that you can properly determine how to modify accounting systems controls to effectively address those new threats and accurately assess the adequacy of controls in those redesigned systems. We also discuss the effect of recent regulatory developments, most notably the Sarbanes–Oxley Act and the upcoming switch from GAAP to IFRS, on the design and operation of accounting systems.

In addition to technology- and regulatory-driven changes, companies are responding to the increasingly competitive business environment by reexamining every internal activity in an effort to reap the most value at the least cost. As a result, accountants are being asked to do more than simply report the results of past activities. They must take a more proactive role in both providing and interpreting financial and nonfinancial information about the organization's activities. Therefore, throughout this text we discuss how accountants can improve the design and functioning of the accounting information system (AIS) so that it truly adds value to the organization.

Key Learning Objectives

When you finish reading this text, you should understand the following key concepts:

- The basic activities performed in the major business cycles
- What data need to be collected to enable managers to plan, evaluate, and control the business activities in which an organization engages
- How IT developments can improve the efficiency and effectiveness of business processes
- How to design an AIS to provide the information needed to make key decisions in each business cycle

- The risk of fraud and the motives and techniques used to perpetrate fraud
- The COSO and COSO-ERM models for internal control and risk management, as well as the specific controls used to achieve those objectives
- The Control Objectives for Information and Related Technology (COBIT) framework for the effective governance and control of information systems and how IT affects the implementation of internal controls
- The AICPA's Trust Services framework for ensuring systems reliability by developing procedures to protect the confidentiality of proprietary information, maintain the privacy of personal information collected from customers, assure the availability of information resources, and provide for information processing integrity
- Fundamentals of computer information security
- Goals, objectives, and methods for auditing information systems
- Fundamental concepts of database technology and data modeling and their effect on an AIS
- The tools for documenting AIS work, such as REA diagrams, data flow diagrams, and flowcharting
- The basic steps in the system development process to design and improve an AIS

Features to Facilitate Learning

To help you understand these concepts, the text includes the following features:

1. **Each chapter begins with an integrated case that introduces that chapter's key concepts and topics and identifies several key issues or problems that you should be able to solve after mastering the material presented in that chapter.** The case is referenced throughout the chapter, and the chapter summary presents solutions to the problems and issues raised in the case.
2. **Focus boxes and real-world examples** help you understand how companies are using the latest IT developments to improve their AIS.
3. **Hands-on Excel exercises in many chapters** help you hone your computer skills. Many of these exercises are based on "how-to" tutorials that appeared in recent issues of the *Journal of Accountancy*.
4. **Numerous problems in every chapter** provide additional opportunities for you to demonstrate your mastery of key concepts. Many problems were developed from reports in current periodicals. Other problems were selected from the various professional examinations, including the CPA, CMA, CIA, and SMAC exams.
5. **Cases in each chapter** require more extensive exploration of specific topics.
6. **Chapter quizzes** at the end of each chapter enable you to self-assess your understanding of the material. We also provide detailed explanations about the correct answer to each quiz question.
7. **Extensive use of graphics** enhance your understanding. The text contains hundreds of figures, diagrams, flowcharts, and tables that illustrate the concepts taught in the chapters.
8. **A comprehensive glossary** located at the back of the book makes it easy to look up the definition of the various technical terms used in the text.
9. **Extensive online support** is available at Pearson Education's content-rich, text-supported Web site, at www.pearsonglobaleditions.com/romney.

Content and Organization

This text is divided into five parts, each focused on a major theme.

Part I: Conceptual Foundations of Accounting Information Systems

Part I consists of four chapters that present the underlying concepts fundamental to an understanding of AIS. Chapter 1 introduces basic terminology and discusses how an AIS can add value

to an organization. Chapter 2 provides an overview of basic business processes. It introduces transaction processing in automated systems, presenting basic information processing and data storage concepts. You will see the wide range of data that must be collected by the AIS. This information helps you to understand what an AIS does; as you read the remainder of the book, you will see how advances in IT affect the manner in which those functions are performed. Chapter 3 covers two of the most important tools and techniques used to understand, evaluate, design, and document information systems: data flow diagrams and flowcharts. Chapter 4 introduces the topic of databases, with a particular emphasis on the relational data model and creating queries in Microsoft Access.

Part II: Control and Audit of Accounting Information Systems

The seven chapters in Part II focus on threats to the reliability of AIS and applicable controls for addressing and mitigating the risks associated with those threats. Chapter 5 discusses fraud and explains how and why it occurs. Chapter 6 continues the discussion of fraud, focusing specifically on computer fraud. Chapter 7 uses the COSO framework, including the expanded enterprise risk management (COSO-ERM) model, to discuss the basic concepts of internal control. Chapters 8–10 use both COBIT and the AICPA's Trust Services frameworks to discuss effective governance and control of information systems. Chapter 8 introduces the fundamental concepts of defense-in-depth and the time-based approach to security. The chapter provides a broad survey of a variety of security topics, including access controls, firewalls, encryption, and incident detection and response. Chapter 9 discusses the many specific computer controls used in business organizations to achieve the objectives of ensuring privacy and confidentiality, and it includes a detailed explanation of encryption. Chapter 10 addresses the controls necessary to achieve the objectives of accurate processing of information and ensuring that information is available to managers whenever and wherever they need it. Chapter 11 describes principles and techniques for the audit and evaluation of internal control in a computer-based AIS and introduces the topic of computer-assisted auditing.

Part III: Accounting Information Systems Applications

Part III focuses on how a company's AIS provides critical support for its fundamental business processes. Most large and many medium-sized organizations use enterprise resource planning (ERP) systems to collect, process, and store data about their business processes, as well as to provide information reports designed to enable managers and external parties to assess the organization's efficiency and effectiveness. To make it easier to understand how an ERP system functions, Part III consists of five chapters, each focusing on a particular business process. Chapter 12 covers the revenue cycle, describing all the activities involved in taking customer orders, fulfilling those orders, and collecting cash. Chapter 13 covers the expenditure cycle, describing all the activities involved in ordering, receiving, and paying for merchandise, supplies, and services. Chapter 14 covers the production cycle, with a special focus on the implications of recent cost accounting developments, such as activity-based costing, for the design of the production cycle information system. Chapter 15 covers the human resources management/payroll cycle, focusing primarily on the activities involved in processing payroll. Chapter 16 covers the general ledger and reporting activities in an organization, discussing topics such as XBRL, the balanced scorecard, the switch from GAAP to IFRS, and the proper design of graphs to support managerial decision making. Each of these five chapters explains the three basic functions performed by the AIS: efficient transaction processing, provision of adequate internal controls to safeguard assets (including data), and preparation of information useful for effective decision making.

Part IV: The REA Data Model

Part IV consists of three chapters that focus on the REA data model, which provides a conceptual tool for designing and understanding the database underlying an AIS. Chapter 17 introduces the REA data model and explains how it can be used to design an AIS database. The chapter focuses on modeling the revenue and expenditure cycles. It also demonstrates how the REA model can be used to develop an AIS that not only can generate traditional financial statements and reports but also can more fully meet the information needs of management. Chapter 18 explains how to implement an REA data model in a relational database system and shows how to

query a relational database in order to produce various financial statements and management reports. Chapter 19 explains how to develop REA data models of the production, HR/payroll, and financing cycles. It also discusses a number of advanced modeling issues, such as the acquisition and sale of intangible products and services and rental transactions.

Part V: The Systems Development Process

Part V consists of three chapters that cover various aspects of the systems development process. Chapter 20 introduces the systems development life cycle and discusses the introductory steps of this process (systems analysis, feasibility, and planning). Particular emphasis is placed on the behavioral ramifications of change. Chapter 21 discusses an organization's many options for acquiring or developing an AIS (e.g., purchasing software, writing software, end-user-developed software, and outsourcing) and for speeding up or improving the development process (business process reengineering, prototyping, and computer-assisted software engineering). Chapter 22 covers the remaining stages of the systems development life cycle (conceptual design, physical design, implementation, and operation and maintenance) and emphasizes the interrelationships among the phases.

To the Instructor

This book is intended for use in a one-semester course in accounting information systems at the undergraduate or graduate level. Introductory financial and managerial accounting courses are suggested prerequisites, and an introductory information systems course that covers a computer language or software package is helpful. The book can also be used as the main text in graduate or advanced undergraduate management information systems courses. Indeed, the topics covered in this text provide information systems students with a solid understanding of transaction processing systems that they can then build on as they pursue more in-depth study of specific topics such as databases, data warehouses and data mining, networks, systems analysis and design, computer security, and information system controls.

Enhancements to the Twelfth Edition

The twelfth edition has been extensively revised and rewritten to incorporate recent developments while retaining the features that have made prior editions easy to use. Every chapter has been updated to include current examples of important concepts. Specific changes include the following:

1. More extensive coverage of both fraud and computer fraud, replacing the one chapter in the eleventh edition that covered both topics with two chapters in this new edition.
2. More detailed discussion of internal control frameworks: COSO, COSO-ERM, and COBIT.
3. Updated discussion of information security countermeasures, including the security and control implications associated with virtualization and cloud computing.
4. Additional Excel exercises, based on *Journal of Accountancy* articles, to help students develop the skills used by practitioners.
5. Many new end-of-chapter discussion questions and problems.

Supplemental Resources

As with prior editions, our objective in preparing this twelfth edition has been to simplify the teaching of AIS by enabling you to concentrate on classroom presentation and discussion, rather than on locating, assembling, and distributing teaching materials. To assist you in this process, the following supplementary materials are available to adopters of the text:

- *Solutions Manual* prepared by Marshall Romney at Brigham Young University and Paul John Steinbart at Arizona State University.
- *Instructors Manual/PowerPoint Presentations* prepared by Steven Hornik at the University of Central Florida.
- *PowerPoint Presentations* prepared by Steven Hornik at the University of Central Florida. The twelfth edition includes an entirely new set of PowerPoint slides that makes extensive use of high-quality graphics to illustrate key concepts. The slides do not merely consist of

bullet points taken verbatim from the text, but instead are designed to help students notice and understand important relationships among concepts. The large number of slides provides instructors a great deal of flexibility in choosing which topics they wish to emphasize in class.

- *Test Item File* prepared by Debra Cosgrove at the University of Nebraska–Lincoln.
- *TestGen testing software*, a computerized test item file.

In addition, you can access these supplements from the protected instructor area of www.pearsonglobaleditions.com/romney.

We recognize that you may also wish to use specific software packages when teaching the AIS course. Contact your local rep to learn about bundling options with software packages such as Peachtree or other texts such as *Comprehensive Assurance & Systems Tool: Assurance Practice Set*, 2nd ed.; *Comprehensive Assurance & Systems Tool: Manual AIS Practice Set*, 2nd ed.; *Comprehensive Assurance & Systems Tool: Computerized AIS Practice Set*, 2nd ed., all written by Laura R. Ingraham of San Jose State University and J. Gregory Jenkins, at Virginia Polytechnic Institute and State University.

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We are grateful for permission received from four professional accounting organizations to use problems and unofficial solutions from their past professional examinations in this book. Thanks are extended to the American Institute of Certified Public Accountants for use of the CPA Examination materials, to the Institute of Certified Management Accountants for use of CMA Examination materials, to the Institute of Internal Auditors for use of CIA Examination materials, and to the Society of Management Accountants of Canada for use of SMAC Examination materials.

Of course, any errors in this book remain our responsibility. We welcome your comments and suggestions for further improvement.

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