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Financial cycle in accounting information system

Practice // Glossary // Financing cycle Tweet Financial Cycle The financial cycle includes the accounting transactions that record the acquisition of capital from owner and creditors, the use of that capital to acquire productive assets and report the owners and creditors on how it is used. Click to see full answer People also ask, what is financing cycle? Financing cycle is the counterpart to the Investment cycle and Business cycle. It covers the period from raising Financial resources to their repayment. Subsequently, question is, what are the financial reporting cycles? The reporting cycle period can be a year, fiscal quarter, or a specified period. The cycle begins with the initial transaction entries in the journal and ends with the published financial statements of the company and the closing of all the temporary accounts. Also Know, what are the transaction cycles in accounting information systems? The purpose of The AIS Transaction Cycles Game is to provide drill and practice or review of the elements that comprise the five typical transaction cycles identified as: revenue, expenditure, production, human resources/payroll, and financing. The game is based on the game called Connect 4. What are five accounting cycles? Each cycle reflects a certain type of business activity. Accountants define each transaction by activity and follow the same process to record and report related information. The five accounting cycles are revenue, expenditure, conversion, financing and fixed asset. The combined cycles repeat each accounting period. Loading Preview Sorry, preview is currently unavailable. You can download the paper by clicking the button above. INTRODUCTION CHAPTER 10 The Revenue Cycle: Sales to Cash Collections • Questions to be addressed in this chapter include: • What are the basic business activities and data processing operations that are performed in the revenue cycle? • What decisions need to be made in the revenue cycle, and what information is needed to make these decisions? • What are the major threats in the revenue cycle and the controls related to those threats? 1 of 160 © 2008 Prentice Hall Business Publishing Accounting Information Systems, 11/e Romney/Steinbart 2 of 161 © 2008 Prentice Hall Business Publishing Accounting Information Systems, 11/e Romney/Steinbart INTRODUCTION • The revenue cycle is a recurring set of business activities and...show more content... Bill of Lading & Packing Slip 2.2 Ship Goods Goods, Packing Slip, & Bill of Lading Inventory Billing & Accts. Rec. Shipments Carrier © 2008 Prentice Hall Business Publishing Accounting Information Systems, 11/e Romney/Steinbart 11 of 161 © 2008 Prentice Hall Business Publishing Accounting Information Systems, 11/e Romney/Steinbart 12 of 161 2 BILLING • The third revenue cycle activity is billing customers. • This activity involves two tasks: – Invoicing – Updating accounts receivable Sales Order Entry Sales Order 3.1 Billing & Packing Slip Bill of Lading Shipping Invoice Sales General Ledger & Rept. Sys. Customer Sales ta nt me s Customer Billing and Accounts Receivable © 2008 Prentice Hall Business Publishing Accounting Information Systems, 11/e Romney/Steinbart 13 of 161 © 2008 Prentice Hall Business Publishing 3.2 Maintain Accts. Rec. Mon th ly S Mailroom Remittance List Accounting Information Systems, 11/e Romney/Steinbart 14 of 161 REVIEW OF REVENUE CYCLE ACTIVITIES • P.O. Box 342-01000 Thika Email: info@mk.ac.ke Web: www.mku.ac.ke DEPARTMENT OF INFORMATION TECHNOLOGY COURSE CODE: BIT 2101 COURSE TITLE: ACCOUNTING INFORMATION SYSTEMS Instructional manual for BBIT – Distance Learning 2 COURSE OUTLINE 5 CHAPTER ONE 7 OVERVIEW OF ACCOUNTING INFORMATION SYSTEMS 7 1.1 Accounting Methods and Objectives 13 ACCOUNTING TRANSACTION CYCLES 13 2.1 Introduction to accounting cycles 13 2.2 The cycles of Business Activities 14 2.3 Transaction Cycles 16 Chapter Review Questions 22 DEVELOPING ACCOUNTING SYSTEMS 22 3.1 The qualities of a successful system 22 3.2 Accounting Information systems development approaches 23 Chapter Review Questions 25 CHAPTER FOUR 26 SETTING UP A QUICKBOOKS BUSINESS 26 4.1 Getting started Checklist 26 4.2 Creating your company file 27 4.3 Creating your customer and vendor list 29 Chapter Review Questions 32 CHAPTER FIVE 33 5 COURSE OUTLINE BIT 2102: ACCOUNTING INFORMATION SYSTEMS Purpose of the course To overview the information systems that support the business financial accounting systems of an organization and to provide practical skills in accounting information systems development and use. I. Overview of accounting information systems A. Introduction to Accounting Information Systems B. Accounting Methods and Objectives C. The accounting process II. Accounting Transaction Cycles A. Introduction to Accounting Cycles B. The cycles of business Activities C. Transaction Cycles; Financial, Expenditure, conversion and revenue cycles III. Developing Accounting Systems A. Qualities of a successful system B. Accounting Information systems development approaches IV. Setting up A QuickBooks business/company A. Creating a Company B. Creating customers vendors and items lists C. Numbering accounts in QuickBooks V. Main QuickBooks features. A. QuickBooks working area B. QuickBooks customers, vendor and employee centers C. Using QuickBooks help VI. QuickBooks basics A. Working with QuickBooks lists B. Paying bills C. Essential tasks such as Adding an Account D. Income and Expense accounts and Balance sheet accounts E. Setting up sales tax F. Setting up payroll ACCOUNTING INFORMATION SYSTEMS - TOPICS - DETAILS 6 VII. QuickBooks Operating Features A. Creating an Estimate B. Creating an Invoice C. Processing sales and receiving payments D. Writing checks and paying employees E. Preparing QuickBooks reports such as Trial balance, Trading profit and loss account and balance sheet Main course text Romney and Steinbart, Accounting Information Systems, 2008, Prentice Hall Business Publishing Assessment: Examination - 70% Coursework - 30% Module compiler: John Kamau 7 CHAPTER ONE OVERVIEW OF ACCOUNTING INFORMATION SYSTEMS Introduction An Accounting Information System (AIS) is a system that collects, records, stores, and processes data to produce information for decision makers. It can: Use advanced technology; or be a simple paper-and-pencil system; or, be something in between, technology is simply a tool to create, maintain, or improve a system. The functions of an AIS are to: Collect and store data about events, resources, and agents. Transform that data into information that management can use to make decisions about events, resources, and agents. Provide adequate controls to ensure that the entity's resources (including data) are available when needed. Accurate and reliable The study of accounting information systems analyzes how events affecting an organization are recorded, summarized, and reported. These events are recorded using that organization's system of human and computer resources, summarized using accounting methods and objectives, and reported as information to interested persons both within and outside of the organization. Accounting information systems exist in many forms of organizations, whether proprietorships, partnerships, corporations, nonprofit foundations, or households. While the complexity of each accounting information system differs, each is similar in three important ways: Each contains a Learning Objectives By the end of this chapter the learner shall be able to: i. Define an Accounting Information system(AIS) and explain the functions of an AIS ii. Explain the accounting methods and objectives iii. Explain the accounting process 10 information explaining the general ledger's control account total. Common subsidiary ledgers include the accounts payable subsidiary ledger, the property ledger, among others. Prepare a Trial Balance. This is step three in the accounting cycle. During an accounting period, accounting information systems journalize and post a large number of transactions. Prior to producing accounting reports, the system summarizes the effect of all the events in a trial balance. Prepare Adjusting Entries. The fourth step in the accounting cycle is the preparation of adjusting entries. Sometimes accountants make these journal entries at the end of a reporting period to match the expenses of the period with the revenues generated by them. Other adjusting entries correct previous errors in journalizing transactions. An 11 accountant or bookkeeper prepares adjusting entries, records them in the journal, and posts them to the ledger. These alter the account balances shown in the trial balance. 12 Further reading Romney and Steinbart, Accounting Information Systems, 2008, Prentice Hall Business Publishing Chapter Review Questions 1. How does a transaction differ from an event? 2. Why is it important to understand both the process and the technology associated with accounting information systems? 3. Explain the six steps that constitute the accounting cycle 15 increase the capital of the business. The exact way in which they are used is not important at this point; they are used differently for different businesses. Most organizations operate on credit—that is, when a business purchases inputs, it receives the inputs in return for a promise to pay for them. The business records an obligation to pay and pays for them at a later date. So, the activity of input acquisition has these four economic events: ordering of inputs, receiving them, recording an obligation to pay for them, and paying for them. Conversion. The next step in the cycle of activities is the conversion of inputs into goods or services. The business sells these to increase its capital. The conversion process is different for different businesses. Manufacturing companies buy raw material inventories, apply labor and overhead to them, and produce an output different from the material purchased. Service companies convert inputs that are predominantly labor into outputs in the form of services. In contrast, the conversion process of merchandising companies (retailers and wholesalers) uses relatively little labor. These organizations purchase inventories of goods, repackaging them, and then market them. All three businesses use inventories of supplies in their conversion processes. One economic event taking place during conversion is the consumption of labor materials, and overhead to produce a salable product or service. Sales. The final component in the cycle of basic business activities is the sale of the goods or services that were outputs of the conversion process. When these are sold at profit, the capital investment of the business increases. Additional cash is available for reinvestment, or for making payments to the sources of capital in the form of dividends and interest. By providing a source of additional capital, the sales component completes the cycle of business activities. The sale of goods or services consists of four economic events: receiving a customer order; delivering goods to the customer; requesting payment for the goods, and receiving payment. 16 Summary Normal business operation consists of a series of economic events. This series results from the cycle of business activities that describes how all accounting entities operate. An accounting system records economic events in the form of accounting transactions, summarizes those transactions, and reports them in some useful way. Thus, you can consider business activities as cycles of accounting transactions. In fact, the study of transaction cycles is a convenient way to understand how most accounting systems work. 2.3 Transaction Cycles A transaction cycle is a set of accounting transactions that occur in a normal sequence. They record the economic events of a component in the cycle of business activities. For example, a sales transaction is normally followed by a shipping transaction, a billing transaction, and a cash receipts transaction. These constitute a cycle. The four accounting transaction cycles are; the financial cycle, the expenditure cycle, the conversion cycle, and the revenue cycle. 17 Financial Cycle. The financial cycle consists of those accounting transactions that record the acquisition of capital from owners and creditors, the use of that capital to acquire productive assets, and the reporting to owners and creditors on how it is used. The two significant economic events in the financial cycle are raising capital and using that capital to acquire property, plant, and equipment. A third event—not really an economic one—is periodic reporting to the sources of capital. The basic financial statements provide periodic reporting. These statements include the balance sheet, the income statement, and the statement of cash flows. The summaries in these statements come from the general ledger. Periodic reporting to the sources of capital enables a business to raise additional capital. For this reason, you can view the series of transactions as a cycle. The three accounting application systems that record the events in the financial cycle are the property the journal entry, and the financial reporting systems. Expenditure Cycle. The expenditure cycle consists of those transactions incurred to acquire material and overhead items for the conversion process of the business. These processes transactions representing the following economic events: requesting the items, receiving the items, recording the obligation to pay for the items, and paying for them. 20 In merchandising companies, costs of conversion are recorded when incurred and matched against revenue in the same period. Depending on the type of organization, the conversion cycle contains either two or three application systems. Manufacturing and service companies use the cost accounting system to record material, labor, and overhead costs. All types of organizations use the payroll system. It ensures that employees are paid for their labor. Manufacturing and merchandising companies use the inventory system to maintain records of inventory on hand. In merchandising and manufacturing companies, the systems of the conversion cycle provide interfaces between the expenditure and revenue cycles. Because it contains only one event, the conversion cycle cannot be represented as a circle as can the other cycles. 21 Romney and Steinbart, Accounting Information Systems, 2008, Prentice Hall Business Publishing Chapter Review Questions 1. What are the components of the cycle of the business activities? 2. What is a transaction cycle? 3. How can the transaction cycle differ significantly between different businesses, even if they are in the same business? 22 CHAPTER THREE DEVELOPING ACCOUNTING SYSTEMS Introduction Accountants commonly apply the systems approach in the development of new information systems. Many organizations implement the systems approach in a formal process called the system development life cycle. Accountants have been creating accounting systems for hundreds of years; the double entry system originated in Italy before Columbus discovered America. But the relatively recent adoption of computer technology in accounting has forced accountants to be more attentive to the methods used in developing accounting systems. The issues addressed in this chapter are: how can one avoid participating in a failure? Which steps are necessary to successfully implement an accounting system? 3.1 The qualities of a successful system No accounting information system is completely successful or totally unsuccessful. In this context, success is a relative quality: A system is successful if it achieves most of the goals set out for it. In general, an accounting information system is successful if it achieves four objectives. First, it should produce correct and timely information. Second, it should be developed within a reasonable amount of time. Third, the system should meet the organization's needs for information. And finally, users should be Learning Objectives By the end of this chapter the learner shall be able to: i. Explain the alternative methods for creating accounting information systems ii. Explain the qualities of a successful information system. iii. Explain the phases that make up the system development life cycle. iv. Explain the alternative methods for developing information systems. 25 Romney and Steinbart, Accounting Information Systems, 2008, Prentice Hall Business Publishing Chapter Review Questions 1. Explain what is meant by a successful information system. 2. What can be done to gain user acceptance of a new system? 3. Explain the different approaches that could be used in developing accounting information systems. 4. What are the reasons for initiating systems analysis within an organization? 26 CHAPTER FOUR SETTING UP A QUICKBOOKS BUSINESS 4.1 Getting started Checklist Learning Objectives By the end of this chapter the learner shall be able to: i. Create a company in QuickBooks ii. Review chart of Accounts iii. Create customers vendors and items lists iv. Number accounts in QuickBooks 27 4.2 Creating your company file To create your company file: • Start QuickBooks by double-clicking the QuickBooks icon on the desktop or clicking the Windows Start button and then clicking QuickBooks from the Programs group. • Click Create a new company file, or go to the File menu and click New Company. • The Welcome screen for the EasyStep Interview opens. Click Start Interview. Note: We recommend that you do not skip the interview process. The more information you enter with the EasyStep Interview, the more accurate your company file will be when you begin to use QuickBooks for your business. However, if you are an experienced QuickBooks user and prefer to create your company file manually, you can skip the EasyStep Interview by clicking Skip Interview on the EasyStep Interview Welcome screen. You will be prompted to enter some basic company information and to save the company file. • Follow the onscreen instructions and complete the interview. 30 Note: Entering historical transactions is especially important if customers don't pay you at the time they receive goods or services. If you don't enter historical transactions early on, it's hard to track and collect late customer payments. Intuit recommends that you enter your transactions in this order (verify with accountant): • Invoices you've sent out since your start date • Purchase orders you've issued since your start date that you haven't received in full • Cash or checks you've received since your start date • Bills you've received since your start date • Bills you've paid since your start date • Deposits you've made to any of your accounts since your start date • Any other checks you've written (for things other than bills) since your start date • Employee year-to-date information paid from January 1 through your start date • Payroll liabilities owed at the time of your start date (for manual payroll and tracking payroll transactions only) Note: If you don't have time to enter all your historical transactions right away, don't worry. You don't need to enter all your past transactions before you start using QuickBooks for new transactions. Enter new transactions as they occur. Then catch up with historical transactions when you can. Remember, though, that your account balances will be incorrect (and your reports may be wrong) until you enter all the past transactions. Complete your bank account information After you've entered your historical transactions, your account registers will contain entries reflecting bills you've paid, checks and paychecks you've written, and deposits you've received. To make your account registers complete, you must also enter these transactions: • Checks or other charges that happened before your start date but didn't appear on statements before your start date (i.e., didn't clear) 31 • Other checks you wrote after your start date that were not for bills or accounts payable (for example, credit card payments) 24 • Deposits you made after your start date that were not customer deposits • Deposits you made before your start date but that didn't appear on statements before your start date • Bank charges and fees • Interest paid on your account Refer to the in-product Help for step-by-step instructions on how to enter these transactions to make your account registers accurate. Backing up your company file The QuickBooks backup file is a compressed version of your QuickBooks company file that contains all transactions through the date the company backup was made. A backup file provides insurance against accidental data loss and can be used to restore your data. QuickBooks backups have a .qbb extension and cannot be opened directly. QuickBooks provides several backup options for securing your data: • Standard backup • Portable Company File To use one of the backup options, go to the File menu and click Save Copy or Backup. To restore your backup, go to the File menu and click Open or Restore Company. To learn more about backing up your company file, refer to the in-product Help. 32 Chapter Review Questions 1. Explain how you could create a new company file in QuickBooks? 2. Explain how you could create new customers and vendors Quick books learning center. 35 Customer Center The Customer Center, shown in Figure 3, is a lens into all your customer information. Without having to sift through multiple screens, you can view a list of all your customers and see pertinent information for each of them. Click on a customer's name and you'll immediately see all the activity you've had with them as well as their pertinent contact information (phone number, fax number, and payment terms). You can use the Customer Center to find out how much money a specific customer owes you or to view a list of all your customers with open balances. You can also look at all your customer transactions (estimates, sales orders, invoices, credit memos, refunds, etc.) across all of your customer in the Transactions list rather than having to run separate reports. 36 Vendor Center The Vendor Center gives you a complete picture of where your money is going. From one screen, you can see all your vendors and exactly what you owe them. Simply click a vendor's name to view your entire history with that vendor. You no longer need to run separate reports to see exactly how much business you're doing with each individual vendor. And, you can sort your bills by due date so you can stay on top of your finances. If you need to talk to a vendor, click their name and you'll see all their contact information. If a vendor calls you to follow up on a late payment, you can quickly look up the bill and see when you paid it and what the check number was. Employee Center From the Employee Center, you can see exactly what you're paying each employee. Simply click an employee's name to view that person's payroll history. And if you need to get in touch with an employee, their contact information is right in front of you. Payroll Center If you subscribe to one of the QuickBooks Payroll services (additional fees apply), the Employee Center includes a Payroll Center. Use the Payroll Center to manage your payroll and payroll compliance.1 The Payroll Center is the hub for managing all payroll activities. The Payroll Center reminds you of important payroll dates so you pay your employees, pay your payroll liabilities, and file forms on time. To check out the Payroll Center, click the Employee Center icon on the navigation bar and then click the Payroll tab. 5.3 Using in-product Help QuickBooks in-product Help provides background information and instructions for doing QuickBooks tasks. You can access the Help content and features in several ways. To use in-product Help, go to the Help menu and click QuickBooks Help. 37 Viewing Help for a window you have open If you are unsure how to use a particular QuickBooks window, press the F1 key on your keyboard. To get help. (You can also click the Help button in the window, if one is present.) These Help topics provide answers to questions such as: • What can I use this form for? • What does this button do? • What kind of information is displayed in this column? • What happens when I select this option? • How do I complete the task? 40 The more detail you enter for each list item, the more information QuickBooks can use to pre-populate forms, track financial data, and display useful reports about your business. Another advantage of lists is that common tasks like adding list entries, editing list information, and deleting list entries are performed the same way. Figure 4 illustrates how QuickBooks uses list information across multiple windows and tasks to simplify data entry and to give you a complete picture of how your business is doing. 6.2 Writing checks versus paying bills In QuickBooks, you can manage your bills and payments in two ways. Write checks to pay bills now. Use the Write Checks window and assign the amounts to appropriate expense accounts. This method is recommended when you don't receive a bill, such as when you go to the store and write a check and then you need to record that expense in QuickBooks. You can also use Write Checks to pay a bill as soon as you receive it, as long as you don't need to track the bill. Enter bills when you receive them and pay them later. Use the Enter Bills window to enter bills when you receive them. Then use the Pay Bills window to pay bills when they are due. You can set up QuickBooks to remind you to pay bills when they are due. Using this method, you keep your money in your business for as long as possible. You might still use a check to pay the bill, but this method enables you to track how much money you owe. And at any time, you can run reports to analyze unpaid bills for information such as which vendors you owe money. Note: Do not simply write a check in the Write Checks window to pay bills that you entered in the Enter Bills window or the accounts payable registers. Receive bill from vendor Castanea ur Company Dane ryaeeon Aenea: Gace Ae Heurair tay, CAGED Enter bills now, Write checks now pay when due Enter Bills Write Checks * Pay Bills Fm -] = tee i Pay Vendor Pa eee pamea eet es oo | a Se — feeve ve See Eal fade *a ael ad me \$

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