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## Module 5

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### [Video Lectures](#)

*Because seeing and hearing is sometimes better than just reading, I have prepared a video lecture for this module. After you read through the sections below, click here to play or to download the videos:*

*Special Journals:*

<http://my-accounting-tutor.com/Financial/Camtasia/5-F/CamtasiaModule5Elements.htm>

## Module 5 Summary

### I. Design of Accounting Systems

- A. Accounting systems accumulate information from all parts of the business, summarize the information and put it into useful forms (reports) so that it can be communicated to managers and external users.
  - 1. Since the "information age" is characterized by the rapid distribution and utilization of information, an efficient and accurate accounting system is essential to business survival in a competitive environment.
  - 2. Accounting systems may be computerized, may be manual systems, or may be a combination of the two.
- B. Accounting systems are created and modified through a never-ending process:
  - 1. Analyze and determine the information needs of the organization and the shortcomings of the current accounting system.
  - 2. Create an information system design that will meet the organization's information needs.
  - 3. Implement the system.
  - 4. Gather feedback from the users of the system and then return to the analysis phase above (step 1), using the feedback to identify system shortcomings. Continue on through steps 2, 3 and 4.

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**II. Internal Control.** In addition to designing the *processing methods* that will be utilized by the accounting system to collect and process data, designers must also be concerned with incorporating *internal controls* into the system design. Internal control is discussed below. It is concerned with the protection of the firm's assets and the accuracy of the reported information.

- A. The term *internal control* refers to the measures built into a company's operating system to safeguard assets, check the reliability and accuracy of accounting information, ensure compliance with management policies, and evaluate operating performance and efficiency.
- B. In order to provide for internal control, a suitable internal control structure must be created. It is composed of **5 elements of internal control**:
  - 1. A **control environment** (an environment that encourages good internal control) must be created. This is possible only if employees

are committed to reaching the company's goals and are willing to comply with company policies in doing so. It also revolves around management's attitudes and desire to provide for strong internal control and the way that this is communicated to employees.

2. **Risk assessment** activities must be carried out on an on-going basis so that the accounting system design is kept up-to-date and continues to provide appropriate controls given the current environment in which the organization functions.
3. **Control procedures** must be established and followed. These include:
  - a. **Limit access to assets.** Give the ability to sign checks, receive inventory shipments, have a door key, etc., to only authorized personnel. The number of persons given this authority should be kept to a minimum.
  - b. **Separation of duties.** The authority to approve transactions, record transactions, and/or have access to assets should not be given to the same person. These duties should all be separated.
  - c. **Assign clear authority** for various functions to individual employees. Those given the responsibility to approve certain actions or the access to certain assets are then held accountable for those actions or assets.
  - d. **Use pre-numbered documents** (checks, purchase invoices, etc.) **and verify written records.** For example, the checking account balance according to the check book may be verified by checking against the bank statement balance, or inventory balances may be verified by taking a physical inventory. An audit may be performed by an independent CPA firm to verify the recorded information, or by "internal auditors" from the company's own accounting staff.
  - e. **Follow sound personnel policies.** Perform background checks before new employees are hired to ensure their competence and honesty. With existing employees, rotate job assignments and require that vacation time be taken in order to reduce the possibility of embezzlement.

4. The internal control system should include a **monitoring process** through which the organization's personnel and its accounting system are evaluated in order to identify any warning signs that may signal internal control problems. Changes in employee's life styles, suspicious business transactions and the like are indications that internal control problems may exist and should be investigated.
  5. **Information and communication** among managers and between managers and the "outside world" is essential if the control system is to remain effective in a changing business environment.
- C. No system of internal controls can *guarantee* there will be no losses from theft or that errors will not occur in the accounting records. Management must weight the costs of implementing the system against the benefits received. Once a system is in place, it must be reviewed and periodically updated as changes occur in business operations and office procedures.
- D. The Institute of Internal Auditors provides certification in internal auditing. Members may become [Certified Internal Auditors](#). You may visit the organization's web site at <http://www.theiia.org/iaa/index.cfm> if you would like more information about the group and internal auditing in general.

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#### **Video Lecture**

*The video lecture pertains to the section below and special journals. This material is often omitted in college accounting textbooks, since computerized systems have eliminated the need to post entries to the general ledger manually. Subsidiary accounts receivable and accounts payable ledgers, though, are still utilized even in computerized systems. You should read the overview section below so that you understand in general how special journals work, and then play the video lecture if you need to have a detailed understanding of them.*

Special Journals:

<http://my-accounting-tutor.com/Financial/Camtasia/5-F/CamtasiaModule5Elements.htm>

**III. Manual Accounting Systems and Special Journals.** Though affordable computers and accounting programs have reduced their usage, manual (non-computerized) accounting systems continue to be employed in many small businesses. Often, these manual accounting systems make use of **special journals**.

- A. **Special journals** can be used to improve efficiency and accuracy in a manual system, especially where a large number of sales and purchases are made on account. These journals are used to record one type, or related types, of transactions. The goal is to make the recording and posting process faster and more accurate.
- B. A manual accounting system may utilize any number of special journals, but the following special journals and subsidiary ledgers (and variations on them) are commonly used:
1. **Revenue Journal** – Used for any credit sale of services. At the end of the period, the total of the journal's single column is posted as a debit to *Accounts Receivable* and a credit to *Revenue* in the general ledger. Each day the sales are posted into the customer's account in the subsidiary Accounts Receivable Ledger.
  2. **Purchases Journal** – Used for any credit purchase of supplies or equipment. At the end of the period, the total of the journal's single *Accounts Payable* column is posted as a credit to *Accounts Payable*. The total of the *Supplies* column is posted as a debit to *Supplies*. The “Other Accounts” column is posted individually to the accounts that are affected by the purchase. Each purchase is posted daily into the vendor's account in the Subsidiary Accounts Payable Ledger.
  3. **Cash Receipts Journal** -- Used to record any transaction in which cash is received. Posting of the column totals is made to Cash and Accounts Receivable at the end of the period. The “Other Accounts” column is posted individually to the accounts that are affected by the cash collection. Any collection of Accounts Receivable is posted to the Subsidiary Ledger of Accounts Receivable daily.
  4. **Cash Payments Journal** -- Used to record any transaction in which cash is paid. Posting of the column totals is made to Cash and Accounts Payable at the end of the period. The “Other Accounts” column is posted individually to the accounts that are affected by the cash payment. Any payment of Accounts Payable is posted to the Subsidiary Ledger of Accounts Payable daily.
  5. **General Journal** – Is still required in a special journal system, but is used only for transactions such as sales or purchases returns that do not fit into a special journal, for adjusting entries, and for closing entries.

6. **Subsidiary Accounts Receivable Ledger** -- A subsidiary ledger of customer accounts; the total of the subsidiary account balances must equal the *Accounts Receivable* balance in the general ledger (which is the "controlling account" over the subsidiary ledger). An entry in any journal that affects a customer's account balance must be posted into the subsidiary ledger.
7. **Subsidiary Accounts Payable Ledger** -- A subsidiary ledger of suppliers' accounts; the total of the subsidiary account balances must equal the *Accounts Payable* balance in the general ledger (which is the "controlling account" over the subsidiary ledger). An entry in any journal that affects a vendor's account balance must be posted into the subsidiary ledger.

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#### IV. Computer Applications in Accounting Systems

- A. Persons working in accounting are certain to encounter the use of micro-computers and mainframe computers in their day-to-day activities.
- B. *Systems analysts* put together the computer equipment (the systems) needed by the users; *programmers* write the programs that make the system function; and *computer operators* keep the equipment functioning.
- C. Computerized accounting systems may be designed so that computers are linked together in a single room or building, *local area networks (LAN's)*, or linked together between cities or countries in *wide area networks (WAN's)*.
- D. Small businesses commonly utilize **general ledger accounting software programs**, which often feature general ledger, accounts receivable, accounts payable, payroll, inventory, and asset depreciation modules. An *integrated* program is one in which all the modules interact with one another (e.g., information entered in the payroll module, for example, also "posts through" to the general ledger module accounts). *Quickbooks*, *Peachtree*, and *NetSuit* are examples of popular small business integrated systems.
- E. **Spreadsheet programs**, such as Microsoft's *Excel* or *Calc* (part of the free *OpenOffice* alternative to *Microsoft Office*) are also widely used as an analytical/report generating tool.

- F. Computer fraud is an issue that relates to internal control and the use of computers in the accounting and business operations processes.
- G. The **Internet** has become a powerful resource for accountants and business managers. Communication through email, information retrieval, and electronic commerce (**e-commerce**) have grown tremendously.

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