RUTGERS

Rutgers Business School
Newark and New Brunswick

33:010:458
Accounting Information Systems

Dr. Peter R. Gillett

Associate Professor
Department of Accounting, Business Ethics and Information Systems
Rutgers Business School–Newark and New Brunswick

A.I.S. Class 8: Outline

- Flowcharts for automated Purchases
- REA Modeling Revisited
- UML 2.0 & VISIO
- Group Work: Orville Ornaments
- Unresolved Issues ?
- Next Class

Group Work

- Narrative and flowcharts in the Chapter 1 Appendix for automated Purchases

Business Processes and Events

- We distinguish events forming parts of business processes from information processes
- Information processes
  * record data about business events
  * maintain data
  * report useful information to decision makers

Business Processes and Events

- Business events
  - selecting a supplier
  - transporting and distributing goods
  - providing services
  - receiving payment
- Information events
  - recording customer orders
  - issuing invoices
  - adding new suppliers to master files
  - printing customer statements
- Decision events
  - selecting a new product line to develop
  - deciding to raise prices

Business Processes and Events

- Business processes may be linked in two ways
  * by sharing common resources
  * by an event in one process triggering an event in another process
- Decision processes may trigger
  * Business events
  * Information processes

Event-Oriented Modeling

- The Semantic Modeling Principle
  - Data in an information system should model the structure of the relevant categories of reality in its application domain

Event-Oriented Modeling

- Applies Semantic Modeling specifically to accounting information systems
- Provides a way of identifying the relevant entities for EER diagrams
- The entities (or objects) of interest are the events in the business processes, and the resources, agents involved
- We generally do not model the information or decision processes or events

Event-Oriented Modeling

- REA Ontology:
  - Economic Resources (R)
  - Events
    - Economic Events (E)
    - Commitments (C)
    - Business Events (B)
      - Instigation (I)
      - Facilitation (F)
      - Terminal (T)
  - Economic Agents
    - Internal Agents (A)
    - External Agents (A)

Event-Oriented Modeling

- Economic Resource
  - Good, right, or service of value, under the control of a person
- Economic Event
  - Occurrence in time wherein ownership of an economic resource is transferred from one person to another
- Economic Agent
  - Persons and agencies who participate in the economic events of an enterprise or who are responsible for subordinates' participation

Event-Oriented Modeling

- Economic Exchange
  - * Type of a business transaction where the goal is an exchange of economic resources between two persons where both parties derive higher utility after the completed business transaction
    - Usually involves two economic events each incrementing or decrementing a different resource in a *duality* relationship

Event-Oriented Modeling

- Commitment
  - Making or accepting of a right, obligation, liability, or responsibility by a person that is capable of enforcement in the jurisdiction in which the commitment is made
- Economic commitment
  - Type of commitments by one person to transfer economic resources to another person at some specified point in the future
- Economic commitments may be *bundled* into
  - Economic agreements (incomplete, not subject to legal enforcement)
  - Economic contracts (complete, enforceable)
- We will often use informal *mutual commitments*
  - *E.g., Sales Order, Purchase Order*

Event-Oriented Modeling

- Economic Claims
  * Expectation of one person to receive a future inflow of economic resources from another person because of an economic exchange which is presently incomplete
    - A claim is *materialized* by an event in an economic exchange
    - It is *settled* by a requiting event in the economic exchange
      – e.g. Accounts Receivable

Event-Oriented Modeling

- REA Ontology:
  - Relationships
    - Duality (E – E)
      - Transfer
      - Transformation
    - Resource-flow (E – R)
      - Inflow
        - Take
        - Production
      - Outflow
        - Use (entirely)
        - Consumption (in small parts)
        - Give
    - Participation (E – A)
      - Inside
        - Accountability
      - Outside
    - Others . . . (more next class)

Event-Oriented Modeling

- REA Ontology:
  - * Congruent events
    - Congruency occurs when both events in an exchange happen simultaneously in time and space
      - E.g., Cash Sales
        - » Selling a movie ticket
        - » Receiving payment for a movie ticket
        - » Cinemas do NOT maintain Accounts Receivable!

REA Modeling Steps

1 Identify the significant events
2 Identify the related resources
3 Identify the related internal and external agents
4 Identify relationships between entities
5 Specify the optionalities and cardinalities of the relationships
6 Identify the attributes of the REA entities

. . . . . .

7 Identify the information processes

- -

8 Design the data repository structure

- -

9 Implement the design

UML 2.0

- Unified Modeling Language
- Developed from combination of competing methods for designing object-oriented systems, from 1995 onwards
- Flexible system works with other methodologies (e.g., for RDBMS design)
- UML 2.0 standard adopted June 2003 (current version 2.1.2)

UML 2.0

- 13 diagrams:
  - Structural
    - Class diagram
    - Object diagram
    - Composite Structure diagram
    - Deployment diagram
    - Component diagram
    - Package diagram
  - Behavioral
    - Activity diagram
    - Use diagram
    - State Machine diagram
  - Interaction
    - Overview diagram
    - Sequence diagram
    - Communication diagram
    - Timing diagram

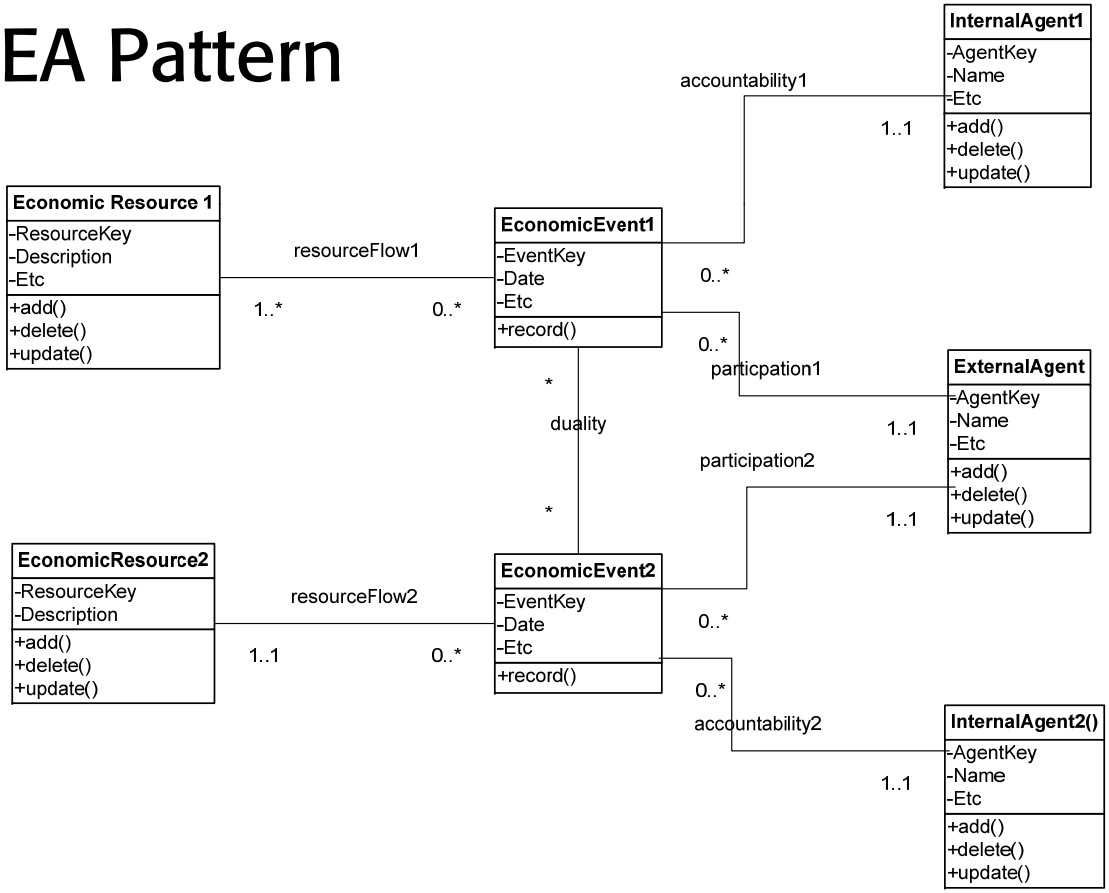
UML Class Diagram (Static Structure)

- We may sometimes omit the names of the relationships when our understanding would not thereby be impaired
- We show optionalities and cardinalities in the form *optionality .. cardinality*
  e.g. 0 ..1 0 .. * 1 ..1 1 .. *
- We will generally use lists (data dictionaries) instead of showing attributes on diagrams

- Show primary keys underlined and foreign keys in [ ] when required
  - N.B. NOT required on REA diagrams

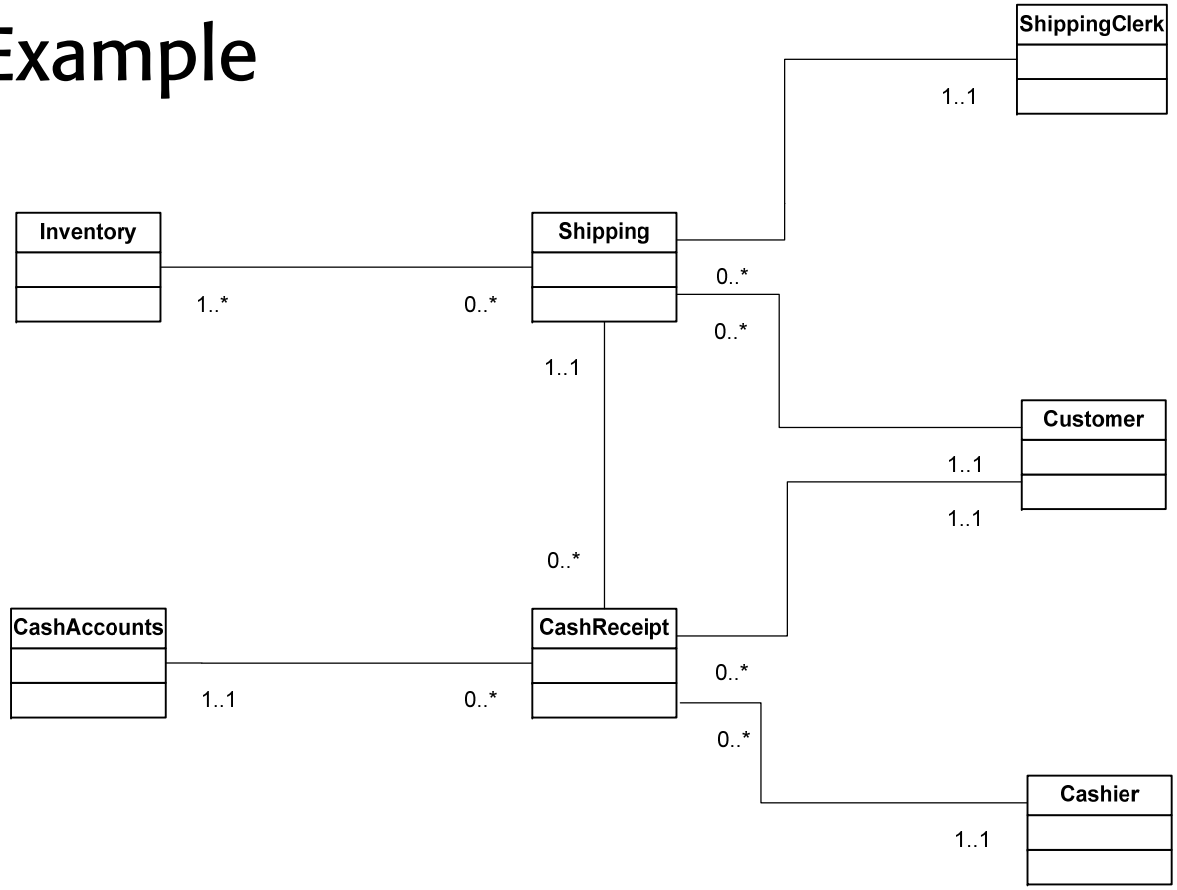
UML Class Diagram (Static Structure)

- Core REA Pattern



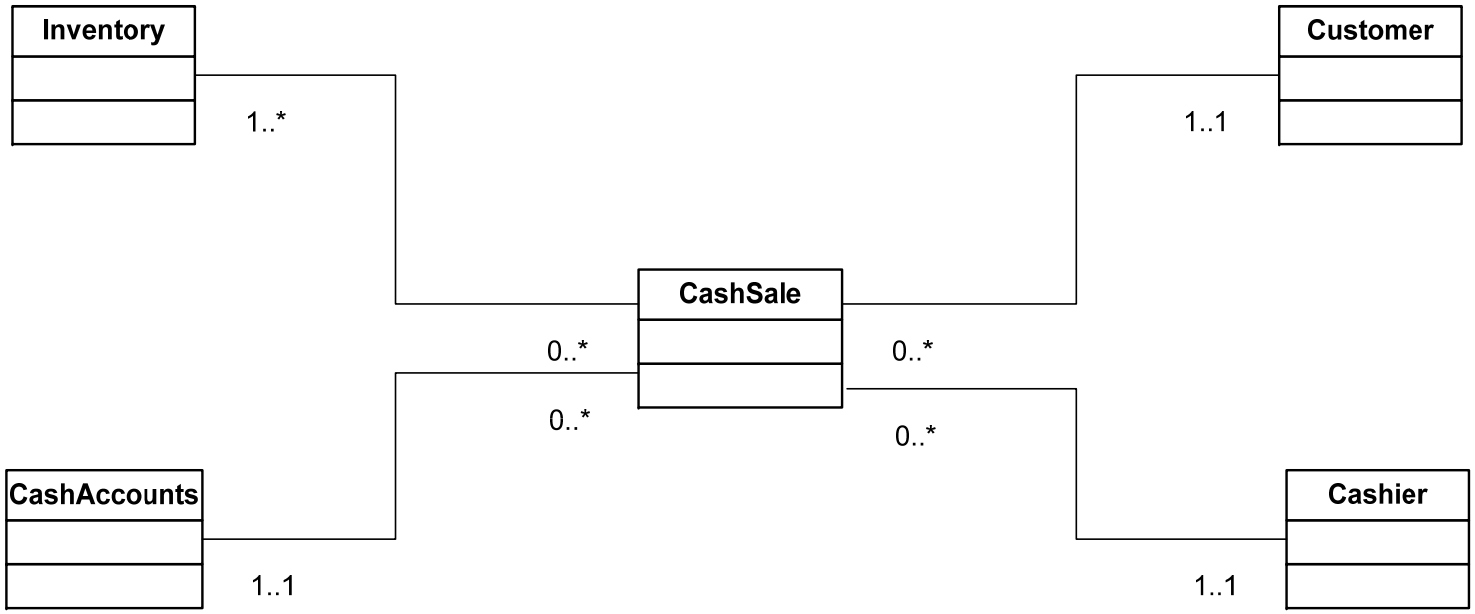
UML Class Diagram (Static Structure)

- REA Example



UML Class Diagram (Static Structure)

- REA Example – Congruent events



REA Modeling

- N.B:
  - * Official format:
    - optionalities, cardinalities and attributes
  - * Textbook format:
    - omit attributes
  - * UML format:
    - omit attributes, omit names of relations, use 0 ..* etc. for optionalities and cardinalities

UML 2.0

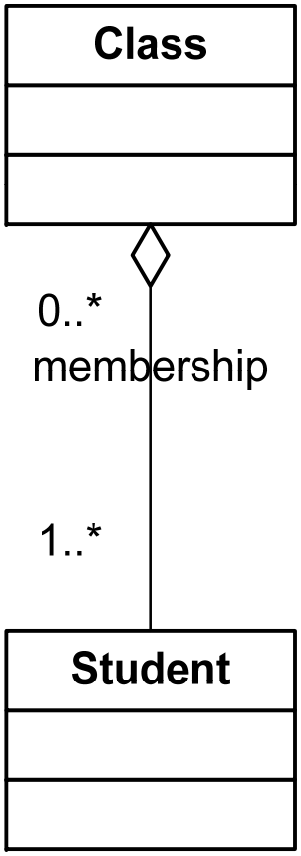
- Unified Modeling Language
  - Associations
    - N-ary associations e.g. binary associations
    - (Aggregation) *(officially removed from UML 2.0?)*
    - Composition
    - Generalization
    - Reflexive associations

UML 2.0

- Association

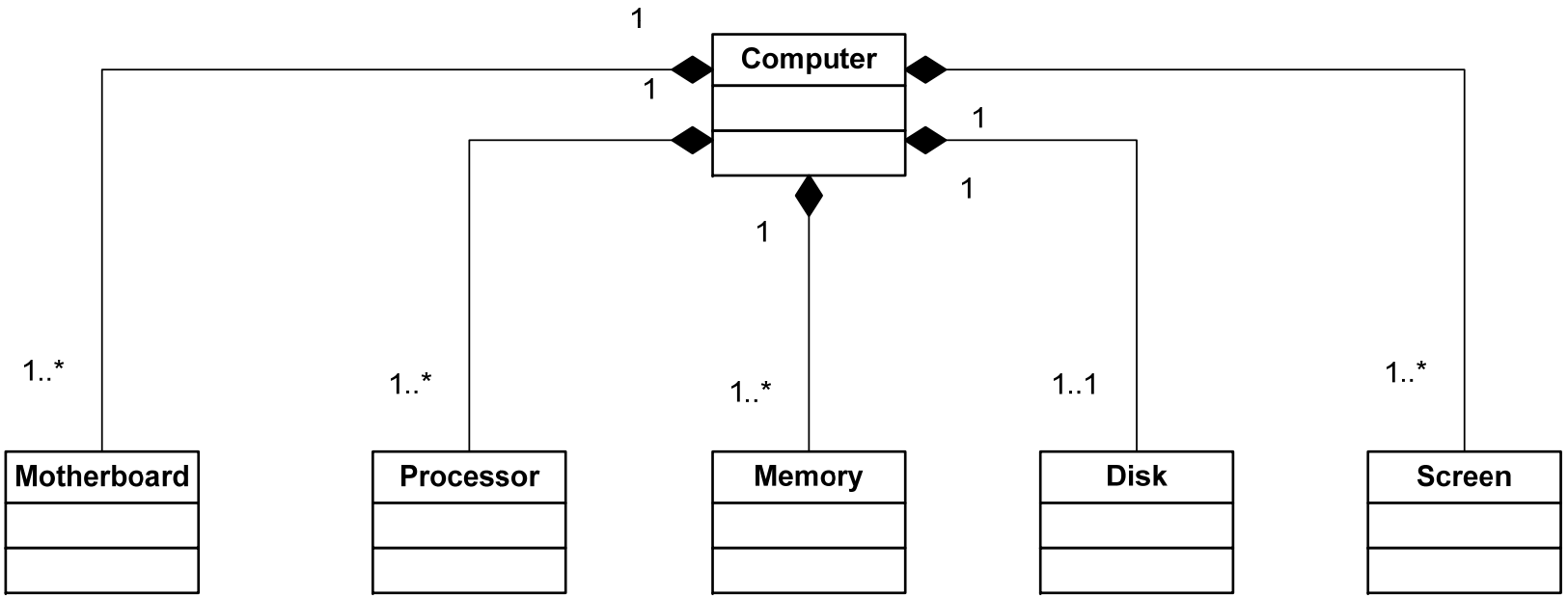
UML 2.0

- Aggregation



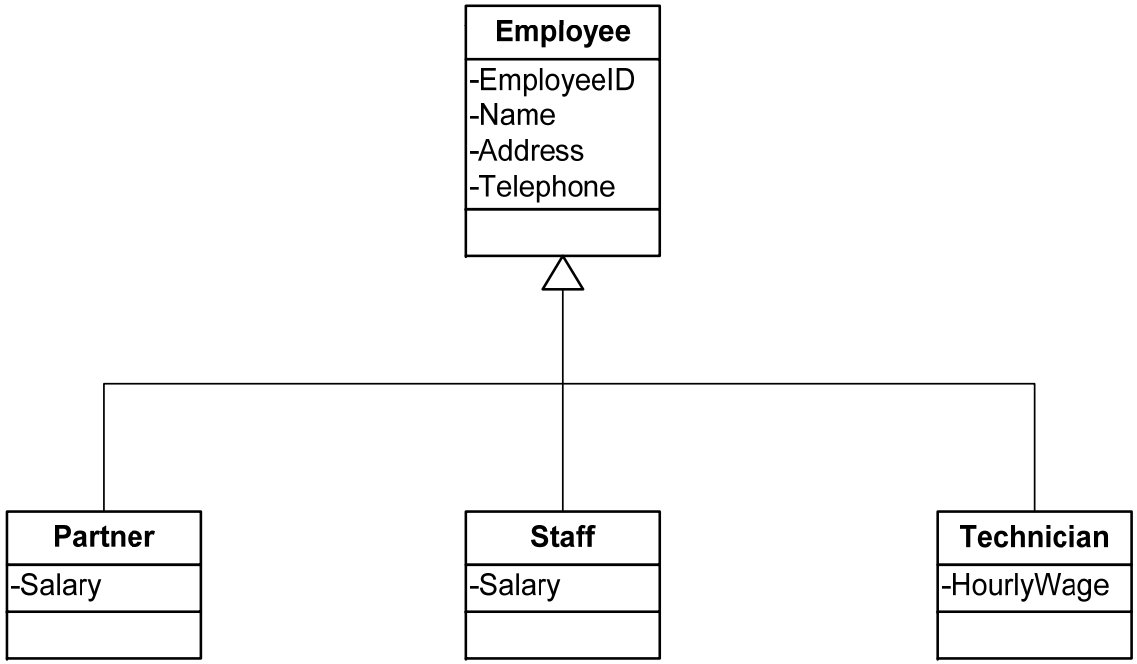
UML 2.0

- Composition



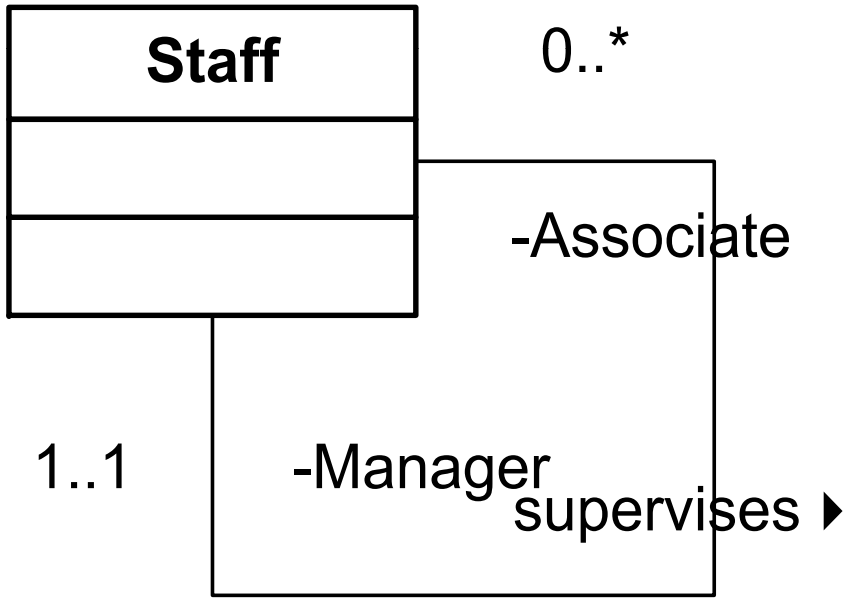
UML 2.0

- Generalization



UML 2.0

- Reflexive



UML & Visio

- UML 2.0
  - Optionalities & Cardinalities (EER) are called Multiplicities (UML)
    - 1 (abbreviates 1..1 – we will NOT use)
    - * (abbreviates 0..* – we will NOT use – default)
    - 0..1
    - 0..*
    - 1..1
    - 1..*
  - "Roles" are now called "association end names"

UML & Visio

- VISIO
  - File, New, Software
  - UML Model Diagram (US units)
  - UML Static Structure
  - You will initially need only two symbols
    - Class
    - Binary Association
  - After you have drawn the first association
    - Right click
    - Shape Display Options
    - End Options
      - Deselect "First end name" and "Second end name"
      - Select the two options at the bottom of the screen
  - To change association properties, double-click
  - To relocate multiplicities, right click and select Format, Text, Text Block

UML & Visio

- VISIO
  - EER Diagrams (ERD)
    - Visio 2000 contained Templates for a variety of different ERD notations (yes, there are many variants . . .)
    - Visio 2002 removed most of them, including the ones we want to use . . .
    - Visio 2003 failed to put them back as expected . . .
    - We can "improvise" by using the Basic Flowchart (US units) template
      - Use the "Process" symbol for Entities
      - Use the "Decision" symbol for Relationships
      - Draw Dynamic Connectors FROM Relationship diamonds TO Entities
      - Change the line endings as necessary (last icon on toolbar)
  - DFDs
    - Use the Data Flow Diagram (US units) template under Flowcharts

Step 7: Information Processes

- What information processes are required?
  - A recording process for each event
  - A maintenance process for each other entity
  - A reporting process for each required report

Group Work for Chapter 8

- Orville Ornaments

Orville Ornaments produces garden gnomes, bird tables, fountains, and other garden ornaments. On Fridays, the production manger creates a Job Order specifying batches of ornaments to be produced the next week. From this the Inventory Manager creates a Materials Requisition identifying the raw materials (stone, plaster, paint, etc.) required to be issued from inventory. The following Monday, the supplies clerks issues the materials to the craftsmen who make the ornaments, and document this Materials Issue. Each ornament requires multiple materials, and over time Orville Ornaments has accumulated an inventory that includes some materials not currently used in production items. Materials are not unique in any way.

Each ornament has a different name (there are seven different garden gnomes, for example, and three different bird tables). Craftsmen specialize in particular items: one craftsman may produce two of the different gnomes, for example, but not yet have learned how to create the others. Every ornament has at least one craftsman who specializes in its manufacture. Before they have learned to specialize in any ornament, newly hired craftsmen are not engaged in production, but help out in various ways, clean up, and learn their new craft.

Each batch of ornaments (say, if six Deluxe Bird Tables are to be produced one week, among other items) is considered a separate production event, by a single specialist – though it is possible that earlier batches of the same item were made by different specialists. In its catalog, Orville Ornaments offers some expensive ornaments that have never yet been manufactured, due to lack of customer orders.

Create an REA-based EER diagram for this scenario, a context diagram, and a Level 0 DFD for the information processes to record what happens. Be prepared to discuss DFDs for maintaining and reporting processes.

Group Work for Chapter 8

- Step 1: Identify the significant events
  - Ask yourself:
    - What are the economic exchanges?
    - What commitments are made to those exchanges?
    - What other events instigate, facilitate or terminate the economic and commitment events in this process?

Group Work for Chapter 8

- Step 1: Identify the significant events
  - Job Order (C)
  - Materials Requisition (C)
  - Materials Issue (E)
  - Make Ornament (E)

Group Work for Chapter 8

- Step 2: Identify the related resources
  * Material
  * Ornament

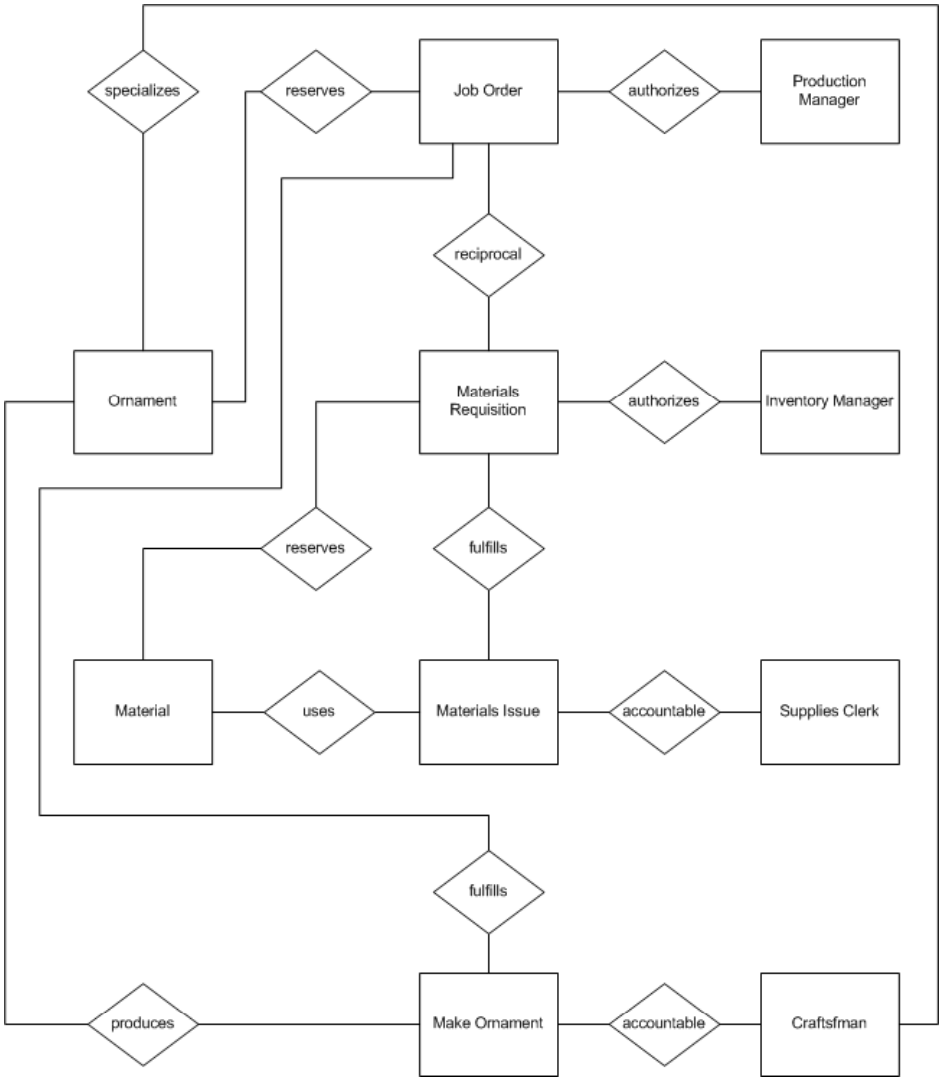
Group Work for Chapter 8

- Step 3: Identify the related internal and external agents
  - Production Manger
  - Inventory Manager
  - Supplies Clerk
  - Craftsman

Group Work for Chapter 8

- Step 4: Identify relationships between entities

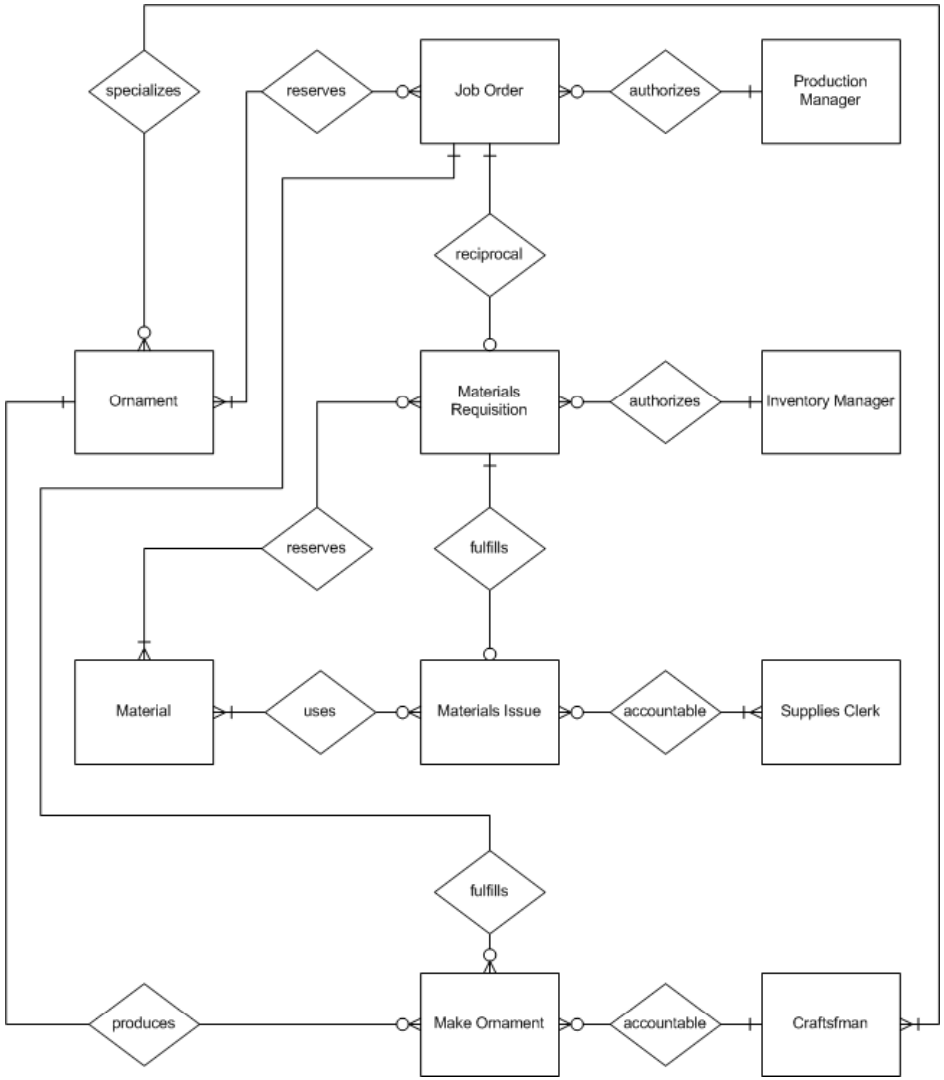
Accounting Information Systems



Group Work for Chapter 8

- Step 5: Specify the optionalities and cardinalities of the relationships

Accounting Information Systems

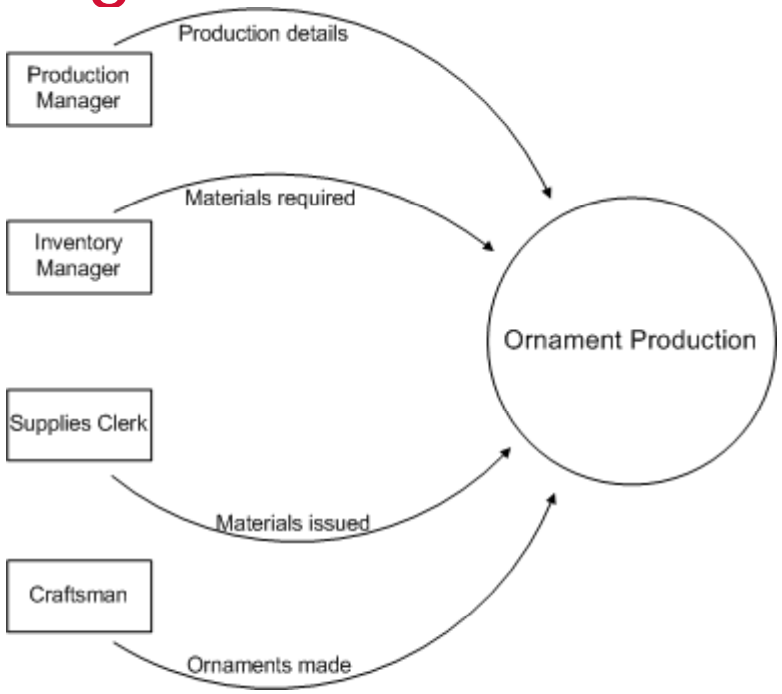


Group Work for Chapter 8

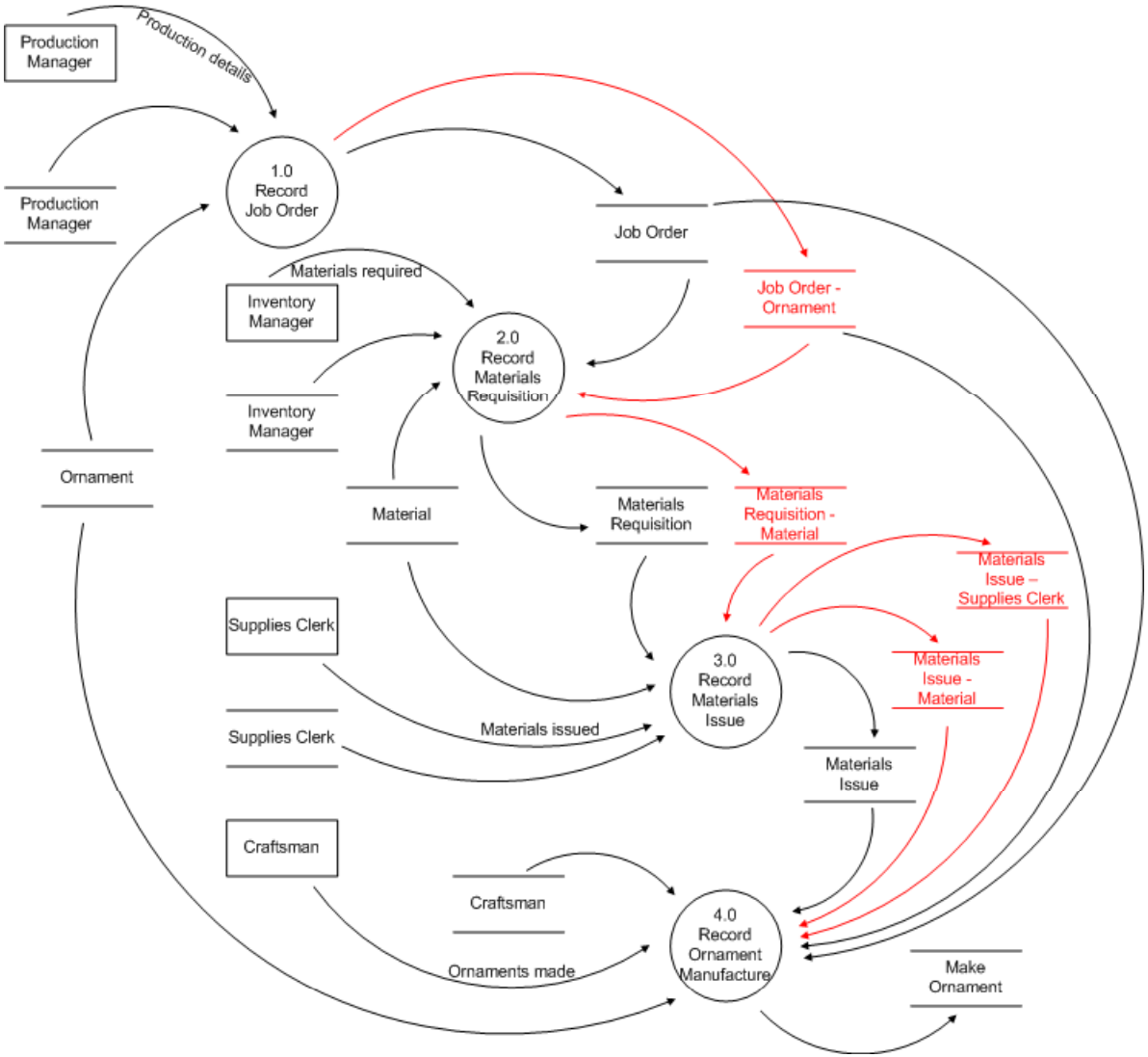
- Step 6: Identify the attributes of the REA entities *(not required for this problem)*
  - e.g., Job Order
    - Job Order #
    - Job Order Date
    - Production Manager #
    - Job Start Date
    - Scheduled Job Completion Date
    - {Ornament #, Quantity Required}
      - The notation { } indicates these are repeating items

Group Work for Chapter 8

- Step 7: Identify the information processes
  * Context Diagram

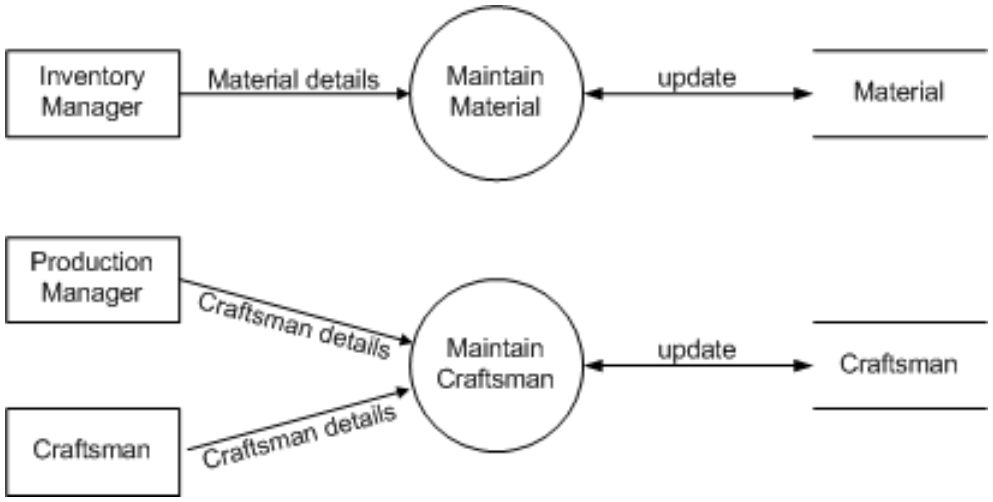


Accounting Information Systems



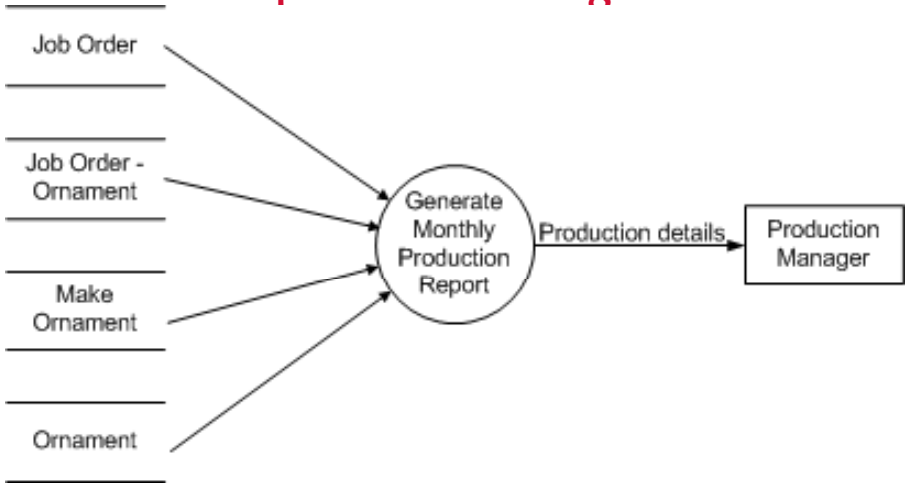
Group Work for Chapter 8

- Step 7: Identify the information processes
  - * DFDs are also required for maintenance processes for all non-event entities; they COULD be shown on the above DFD (which shows recording processes) – but to avoid cluttering this diagram, they are often shown as a series of separate Level 0 diagrams e.g.



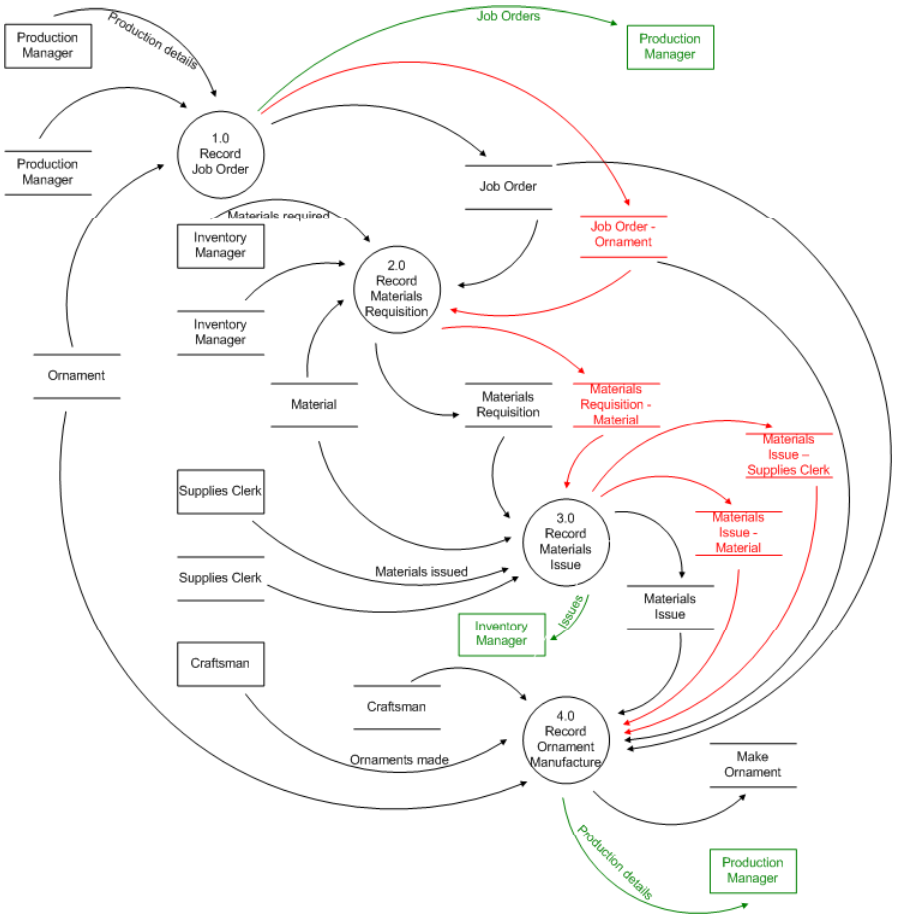
Group Work for Chapter 8

- Step 7: Identify the information processes
  - * DFDs are also required for reporting processes; the scenario given is obviously incomplete, since it does not describe any outputs from the information system – end-of–period reports should normally also be shown as a series of separate DFDs e.g.

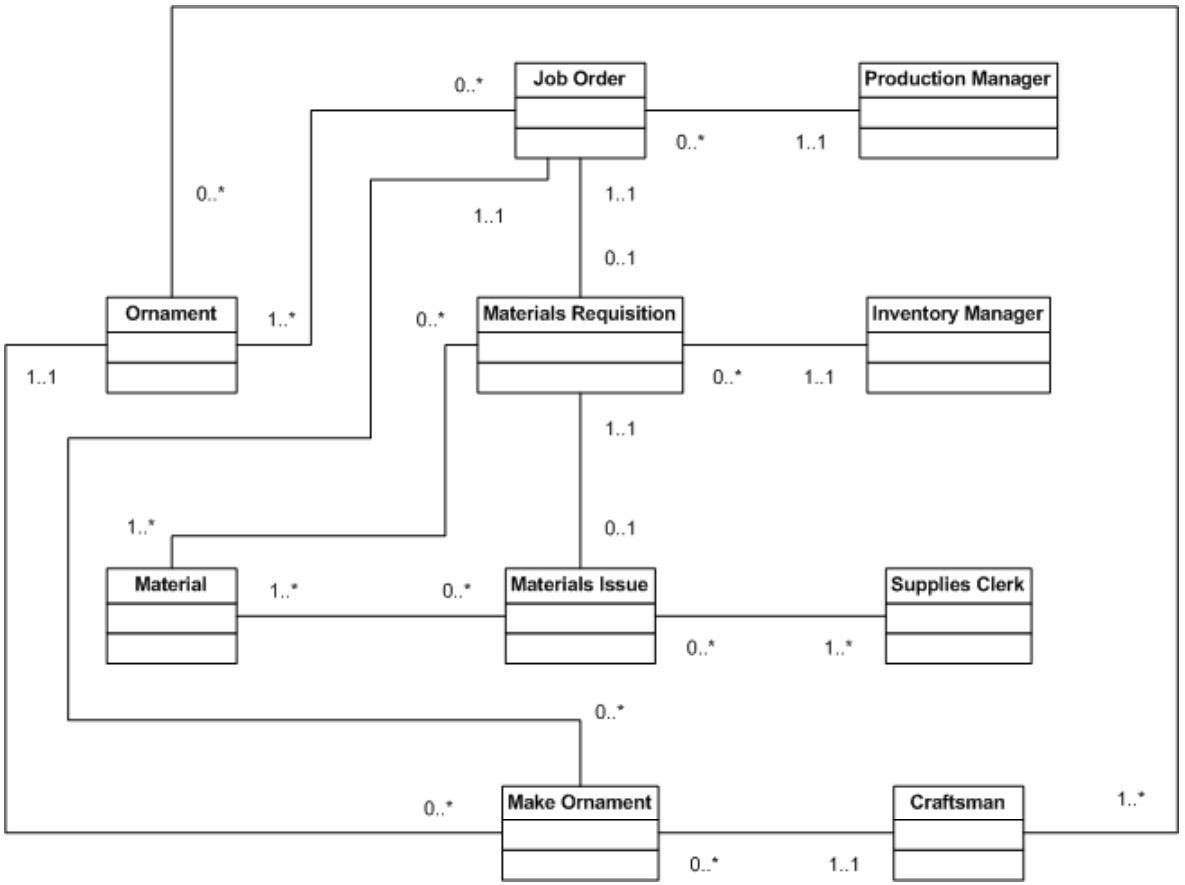


  - * However, real-time reports should be shown on the recording DFD:

Group Work for Chapter 8



Group Work for Chapter 8 - UML



Benefits of REA (so far)

- Identifies the entities for EER modeling
- Identifies the required processes so that model integration is automatic
- Leads to tables already in 3NF (to be discussed in Chapter 9)

Unresolved Issues ?

- Be aware that Chapters 12 & 13 address the Sales and Purchases cycles
- Even though we won't get to these chapters for some time, it is O.K. to read ahead and look for ideas that may help with Ash Accounting

Unresolved Issues ?

- You must use a (large – 2" minimum) ring binder to submit future stages of the Group Project
- Obtain a proper set of file dividers
- File the Group Logs FIRST
- File Stage 1 in Section 1
- File Stage 2 in Section 2 etc

Three "Events" . . .

- Please remember to download from Blackboard (Course Documents – Supplemental Materials), print, read, and bring to class next time, the document:

  Three "Events" That Define an REA Methodology

Extended REA Ontology

- A document "Extended REA Ontology" is now available from Blackboard (Course Materials – Resources).
  Please download it, print it, and bring it to the next class.
- Bring new Ash Accounting write-up to next class, too.