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«ОБЛІК ТА АУДИТ»

**конспект лекцій для студентів денної та заочної форм навчання
за спеціальністю 073 — «Менеджмент»**

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INTRODUCTION

“Accounting and Audit” course of study is designed for both full time and correspondence students of the specialty 073 “Management”. Course of lectures includes two modules. The first module is devoted to all kinds of Accounting, and first of all, Bookkeeping. It describes the basics and definitions of Accounting, its problems, principles and methods, system of accounts, financial reporting, and the process of accounting of specific kinds of operations. The second module is devoted to Audit, the process and kind of activity, which is related and closely connected to the processes of accounting. It describes the essence of Audit, its contents, purposes and tasks, questions of regulation of auditor’s activity, planning of auditor check, general methodical approaches to auditor check, auditors risk and significance, methods of auditor check, auditor proofs and more. The topics of the lectures according to the curriculum and work programs are given in the table 1.1, 1.2

Table 1.1 – Structure of the course of study

Theme of the lecture	Number of hours
1	2
Module 1. Accounting	
1. Basics and definitions of Accounting	2
2. The complete and simplified Card of accounts in Accounting	2
3. Classes of accounts in a bookkeeping card of accounts	4
4. Problems and principles of accounting	2
5. Method of Accounting	4
6. System of Accounting	2
7. Financial accountability	2
8. Documentation and inventory	2
9. Types of economic operations and their influence on the balance	2
10. Valuation and calculation	4

The end of table 1.1

1	2
Module 2. Audit	
11. Essence of Audit, its contents, purposes and tasks	2
12. Principles of Audit	2
13. Kinds of Audit	2
14. The services accompanying audit	2
15. The rights and responsibilities of the auditor, management and other officials of the checked organisation	2
16. Regulation of auditing activity and responsibility auditors organisations	2
17. Auditor standards	2
18. Contractual work	6
19. Planning of auditor check	2
20. Auditor risk	2
21. The general methodical approaches to auditor check	6

Theme 1. Basics and definitions of Accounting

Lecture 1

1.1 Definitions of accounting

Accountancy or accounting is the art of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management.

Ukrainian definition for Accounting from the Law of Ukraine “About the Accounting and Financial Accountability in Ukraine”. Accounting (Book keeping) is the process of revealing, measurement, registration, accumulation, generalization, storage and transfer of information about the enterprise activity to external and internal users for the means of decision-making.

Managers, lenders, investors, tax authorities, regulators, and other decision makers primarily use such financial information to make resource allocation decisions between and within companies, organizations, and public agencies. It involves the process of recording, verifying, and reporting of the value of assets, liabilities, income, and expenses in the books of account (Ledger) to which debit and credit entries (recognizing transactions) are chronologically posted to record changes in value. Accounting is also defined by the AICPA as "The art of

recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events of financial character, and interpreting the results thereof."

1.2 History of accounting

Accountancy's infancy dates back to the earliest days of human agriculture and civilization (the Sumerians in Mesopotamia, and the Egyptian Old Kingdom). Ancient economic thought of the Near East facilitated the creation of accurate records of the quantities and relative values of agricultural products, methods that were formalized in trading and monetary systems by 2000 B.C. Simple accounting is mentioned in the Christian Bible (New Testament) in the Book of Matthew, in the Parable of the Talents. The Islamic Quran also mentions simple accounting for trade and credit arrangements.

The development of mathematics and accounting were intertwined during the Renaissance. Mathematics was in the midst of a period of significant development in the late-15th century. Hindu-Arabic numerals and algebra were introduced to Europe from Arab mathematics at the end of the 10th century by the Benedictine monk Gerbert of Aurillac, but it was only after Leonardo Pisano (also known as Fibonacci) put commercial arithmetic, Hindu-Arabic numerals, and the rules of algebra together in his *Liber Abaci* in 1202 that Hindu-Arabic numerals became widely used in Italy.

Luca Pacioli's mathematics compendium, "*Summa de Arithmetica, Geometria, Proportioni et Proportionalità*" (trans. Review of Arithmetic, Geometry, Ratio and Proportion) was first printed and published in Venice in 1494. It included a 27-page treatise on bookkeeping, "*Particularis de Computis et Scripturis*" (trans. Details of Accounting and Recording). It represents the first known printed treatise on bookkeeping; and it is widely believed to be the forerunner of modern bookkeeping practice. In *Summa Arithmetica*, Pacioli introduced symbols for plus and minus for the first time in a printed book, symbols that became standard notation in Italian Renaissance mathematics. *Summa Arithmetica* was also the first known book printed in Italy to contain algebra.

Double-entry is defined as any bookkeeping system in which there was a debit and credit entry for each transaction, or for which the majority of transactions were intended to be of this form. Pacioli's 27-page treatise on

bookkeeping contained the first known published work on that topic, and is said to have laid the foundation for double-entry bookkeeping as it is practiced today.

The first known book in the English language on accounting was published in London, England by John Gouge (or Gough) in 1543. It is described as *A Profitable Treatyce called the Instrument or Booke to learn to know the good order of the keypyng of the famous reconynge, called in Latin, Dare and Habere, and, in English, debtor and Creditor.*

A short book of instructions was also published in 1588 by John Mellis of Southwark, England, in which he says, "I am but the renuer and reviver of an ancient old copies printed here in London the 14 of August 1543: collected, published, made, and set forth by one Hugh Oldcastle, Schoolmaster, who, as reappeared by his treatise, then taught Arithmetics, and this booke in Saint Ollaves parish in Marko Lane." Mellis refers to the fact that the principle of accounts he explains (which is a simple system of double entry) is "after the former of Venice".

A book described as *The Merchants Mirrour, or directions for the perfect ordering and keeping of his accounts formed by way of Debtor and Creditor, after the (so termed) Italian manner*, by Richard Dafforne, accountant, published in 1635, contains many references to early books on the science of accountancy. In a chapter in this book, headed "Opinion of Book-keeping's Antiquity," the author states, on the authority of another writer, that the form of book-keeping referred to had then been in use in Italy about two hundred years, "but that the same, or one in many parts very like this, was used in the time of Julius Caesar, and in Rome long before." He also gives quotations of Latin book-keeping terms in use in ancient time.

An early Dutch writer appears to have suggested that double-entry book-keeping was even in existence among the Greeks, pointing to scientific accountancy having been invented in remote times.

There were several editions of Richard Dafforne's book – the second edition in 1636, the third in 1656, and another in 1684. The book is a very complete treatise on scientific accountancy, beautifully prepared and containing elaborate explanations. The numerous editions tend to prove that the science was highly appreciated in the 17th century. From this time on, there has been a continuous supply of literature on the subject, many of the authors styling

themselves accountants and teachers of the art, and thus proving that the professional accountant was then known and employed.

1.3 Types of accounting

Financial accounting is "a major branch of accounting involving the collection, recording and extraction of financial information, and the summary of it in the form of a periodic profit and loss account, a balance sheet and a cash flow statement in accordance with legal, professional, and capital market requirements".

Tax accounting is the accounting needed to comply with jurisdictional tax regulations.

Management accounting is another branch of accounting performed within an organization to provide information only accessible to its decision-makers.

Open-book accounting is an accounting principle that aims to improve accounting transparency of organizations.

The related, but separate financial audit comprises internal audit and external audit. External audit – carried out by independent auditors – examines the financial statements and accounting records in order to express an opinion as to the truth and fairness and adherence to Generally Accepted Accounting Principles (GAAP). Commonly used GAAP include the US Financial Accounting Standards Board (FASB), which issues FASB Pronouncements including Statements of Accounting Standards, and the International Accounting Standards Board (IASB), which issues International Financial Reporting Standards (IFRS). Many other countries have instituted local standards resulting in a local country GAAP. Internal audit aims at providing information for management usage, and is typically carried out by employees.

1.4 Additional definitions for the Accounting in Ukraine

Assets – the resources controlled by the enterprise as a result of last events, which use as it is possible to expect, will lead to reception of economic gains in the future.

The obligation – the indebtedness of the enterprise which has arisen owing to last events and which settlement in the future, as it is possible to expect, will lead to reduction of economic gains of the enterprise.

Economic gain – potential possibility of reception money resources from the use of assets by the enterprise.

Economic operation – action or event that causes changes in structure of assets, obligations, or enterprise ownership capital.

Accounting policy – set of principles, methods and procedures, which are used by the enterprise for drawing up and submission of financial accounting information.

The basic document – the document that contains data about economic operation and confirms its accomplishment.

Financial accounting – accounts which contain the information about the financial position, results of activity and movement of money resources of the enterprise for an accounting period.

The consolidated financial accounting – financial accounting which displays a financial position, results of activity and movement of money resources of the legal person and its branches as uniform economic entity.

National regulation (standard) of Accounting (Book keeping) – the regulatory legal act confirmed by Department of the Treasury of Ukraine which defines principles and methods of book-keeping and drawing up of financial accountability, which does not contradict the international standards.

Users of a financial accounting – natural or legal persons who require the information on activity of the enterprise for decision-making.

Theme 2. The complete and simplified Card of accounts in Accounting

Lecture 2

The Accounting card of accounts is a list of accounts and schemes of registration and grouping of facts of financial and economic activity (the correspondence of accounts) in Accounting. In the Card of accounts, codes (numbers) and names of synthetic accounts (accounts of the first order) and subaccounts (accounts of the second order) are resulted on decimal system. The first figure of a code defines a class of accounts, the second is the number of the synthetic account, the third is the subaccount number. Counting of documents of the primary accounting and management registers of Accounting is carried out with application of, at least, a code of a class and a code of the synthetic account.

The instruction establishes purpose and order of administration of accounts in Book keeping, for generalisation by a method of dual recording, about

availability and movement of assets, capital, obligations and the facts of financial and economic activity of the enterprises, the organisations and other legal persons (except banks and budgetary organisations) irrespective of patterns of ownership, organizational-legal forms and activity kinds, and also the branches allocated for separate balance and other isolated divisions of legal persons. Management of below-line balance accounts is carried out with application of simple system (without application of a method of dual record).

New synthetic accounts can be entered into the card of accounts by Treasury of Ukraine under corresponding petitions concerning Accounting of specific operations.

Subaccounts are used by the enterprises, proceeding from needs of management, control, analysis and reporting and can be supplemented by them with introduction of new subaccounts (accounts of the second and third orders) with preservation of codes (numbers) of subaccounts from the Card of accounts. The order of management of analytical accounting and the correspondence of accounts which is not resulted in the Instruction, is established by the enterprise, proceeding from norms of the Instruction, regulations (standards) of Accounting, other regulatory legal acts on Accounting and administrative needs.

The Instruction for use of the card of accounts is directed on maintenance of unity of homogeneous economic operations representation by implication on corresponding synthetic accounts and subaccounts. Instruction contains a short characteristic and appointment of synthetic accounts and the subaccounts, and the typical scheme of registration and grouping of information about economic operations (the correspondence of accounts of the first order).

Accounts of classes 0 – 7 are obligatory for all enterprises.

Accounts of class 9 "Activity expenses" are conducted by all enterprises, except subjects of small business, and other organisations, which activity is not directed on commercial activity, with opening under own decision of accounts of class 8 "Expenses on elements".

Small enterprises and other organisations, which activity it is not directed on commercial activity, may conduct accounting of costs with use of only accounts of a class 8 "Expenses by the elements" or in order, which is resulted in the previous paragraph.

Book keeping at the subaccounts is conducted in analytical cut, with reflection of quantitative, summative and qualitative (mark, grade, size, etc.)

information about the availability and movement of objects of Accounting at the corresponding synthetic account of a class 1 " Non-negotiable assets", 2 "Stocks" and 0 " Below-line accounts".

The enterprises of retail trade, that apply a method of valuation of the goods on an ask price, may conduct analytical accounting of goods in summative expression.

Subjects of enterprise activity – legal persons, that, according to the current legislation, are recognised as subjects of small business, legal persons, that do not attend to business (entrepreneurial) activity (except budgetary organisations), irrespective of patterns of ownership, organizational-legal forms and activity kinds, and also offices of foreign subjects of economic activity, may apply the simplified card of accounts. Subjects of business activity may apply the simplified card of accounts in case of drawing up of financial accountability according to the Regulation (standard) of Accounting #25 "Financial report of the subject of small business", issued by the order of the Ministry of Treasury of Ukraine from February, 25th, 2000 #39, registered in the Ministry of Justice of Ukraine on March, 15th, 2000 for #161/4382.

Theme 3. Classes of accounts in a bookkeeping card of accounts

Lecture 3

Class 1. Non-negotiable assets

Accounts of this class are intended for generalisation of the information about the availability and movement of basic assets, other non-negotiable tangible assets, intangible assets, long-term financial investments, capital investments, long-term debt receivable and other non-negotiable assets, and also wear of non-negotiable assets.

Accounts of this class with corresponding management of analytical accounting contain the information about the availability and movement of the non-negotiable assets, belonging to the enterprise on the property rights, received on the right of economic management, on the right of the operational administration, received in financial leasing, entrusted to administration or by lease agreement of a complete property complex.

Class 2. Stocks

Accounts of this class are intended for generalisation of the information about the availability and movement of enterprise's finished commodity, goods, subjects of work, intended for handling, processing, application in production and for economic needs, and also means of work which the enterprise includes in structure of invaluable and high-wear subjects.

Material assets, accepted by the enterprise for safe keep, processing (customer-owned raw materials), commission, are considered at the accounts of class 0 "Off-balance accounts".

The finished commodity, goods, manufacturing inventory, etc., that are shipped, before risks and benefits, connected with the property right, are transferred to the buyer, are showed at separate subaccounts of corresponding accounts of a stock record.

Class 3. Means, accounts and other assets

Accounts of this class are intended for generalisation of information about the availability and flow of funds (in national and a foreign currency in cash desks, on settlement (running), currency and other accounts in banks), cash items, short-term bills receivable and financial investments, accounts receivable, a reserve of doubtful debts and deferrals (costs of the future periods).

Money resources in foreign currency, operations with them and accounts with foreign currency at the accounts of this class and classes 4 "Ownership capital and maintenance of obligations", 5 "Long term obligations", 6 "Current obligations" and at the accounts 14 "Long-term financial investments" and 18 "Long-term debt receivable and other assets" are considered in hryvnas in sum, which is defined by recalculation of foreign exchange at the rate of the National bank of Ukraine. Simultaneously, money resources, financial investments and accounts are displayed in that currency, in which accounts and payments are carried out. Differences in exchange for such operations are reflected at accounts 71 "Other operational income", 74 "Other incomes", 85 "Other expenses", 94 "Other costs of operational activity", 97 "Other costs".

Class 4. The Ownership capital and security of obligations

Accounts of this class are intended for generalisation of the information about condition and movement of means of different kinds of ownership capital –

statutory, share, additional, reserve, extracted, unpaid, retained profits (uncovered losses), and target earnings, security of the future costs and payments, insurance funds.

The order of generalisation of information about the condition and movement of means for separate components of ownership capital for the enterprises of the state and municipal sectors of economy is defined by the Regulation about the order of Accounting of separate assets and operations of the enterprises of the state, municipal sectors of economy and the economic organisations, which possess and-or use objects of the state, community property, the confirmed order of Treasury of Ukraine from 19.12.2006 #1213 (z1363-06).

Class 5. Long-term obligations

Accounts of this class are intended for the accounting of data and generalisation of information about: indebtedness of the enterprise to banks for the long-term credits received from them (the indebtedness which is not subject to repayment within an operational cycle of the enterprise or within twelve months from the date of balance); indebtedness of the enterprise concerning obligations with attraction of extra means (except banks credits), on which percent are charged; the sum of profit tax, which is subject to payment in the future periods owing to time distinction between registration and tax bases of estimation; indebtedness under the long-term bills issued and widespread bonds.

Long-term obligations are reflected at accounts if their estimation can be authentically defined and there is a probability of reduction of economic gains in the future owing to their repayment.

Theme 3. Classes of accounts in a book keeping card of accounts

Lecture 4

Class 6. Current obligations

Accounts of this class are intended for the accounting of data and generalisation of information about the obligations, which will be repaid in a normal course of operational cycle of the enterprise or should be repaid within twelve months from the date of balance.

Accounts of this class serve for reflection of information about the accounting of money at short borrowings, long-term obligations, which became a floating debt with a payback period of no more than twelve months from the date

of balance, short-term bills issued, accounts with suppliers and contractors, accounts under taxes and payments, accounts by the insurance, accounts by the payments to workers, accounts with participants, and also other accounts and operations, and incomes of the future periods.

Separate subaccounts of synthetic accounts # 63, 64, 65, 68 by the end of month may have not only credit, but also debit rests.

Class 7. Incomes and results of activity

Accounts of a class 7 "Incomes and results of activity" are intended for generalisation of information about the incomes from operational, investment and enterprise financing activities, and also from emergencies. The structure of incomes and the order of their recognition are defined by corresponding Regulations (standards) of Accounting.

Accounts of this class, except account 76 "Insurance payments", within a financial year contain the following information: under the credit the total sum of income, including the sums of indirect taxes, dues (obligatory payments), included in ask prices, under the debit – monthly reflection of the proper sum of indirect taxes, dues (obligatory payments), annual or monthly reference of the sum of the net income to account 79 "Finance results".

Account 76 "Insurance payments" contains the information about the reception of insurance payments and their returning to insureds, with monthly reference of total difference on subaccount 703 "The Income of realisation of works and services".

Class 8. Costs on elements

Accounts of this class are used for generalisation of the information about the costs of the enterprise for the accounting period.

Costs are reflected on the book keeping accounts if their estimation can be authentically defined at the moment of retirement of assets or increase in obligations which lead to reduction of the enterprise's ownership capital (except a capital reduction at the expense of its withdrawal or distribution by holders).

The basic requests to recognition, structure and estimate of costs are stated in Regulation (standard) of Accounting # 16 "Costs".

Accounts of this class, except account 85 "Other expenses", are used for the accounting of expenses of operational activity by the following elements of

expenses: material inputs, labour costs, deductions on social needs, depreciation and other operational expenses. Account 85 is applied for generalisation of the information about the expenses, connected with investment and financing activities, and expenses, connected with prevention of emergencies and liquidation of their consequences.

Subjects of small business, and other organisations, which activity it is not directed on the commercial activity, may use for the accounting of expenses only the accounts of class 8. They have to write off under the debit of account 23 "Production" monthly the sums of direct and manufacturing overhead charges (whole-manufacturing costs) and under the debit of account 79 "Finance results" by the end of the year or monthly the sums of administrative expenses, sales costs, and other operational expenses.

Other enterprises may use the accounts of this class for generalisation of the information about the expenses by the elements with monthly writing off accounts balances in the correspondence with account 23 "Production" and the accounts of class 9 "Activity Costs".

Account 85 is conducted only by those enterprises and the organisations, which do not apply the account of a class 9 "Activity Costs", and the balance on is closed at the end of the year or monthly in the correspondence with the debit of account 79 "Finance results".

Class 9. Activity Costs

Accounts of the Class 9 "Activity Costs" are applied for the generalisation of the information about the operational, investment, financing activities expenses and expenses for prevention of emergencies and liquidation of their consequences. The basic requests to recognition, structure and estimate of costs are stated in Regulation (standard) of Accounting # 16 "Expenses (Costs)".

Under the debit of accounts of this class, the sums of expenses are reflected, under the credit - writing off the sum of expenses by the end of the financial year or monthly to account 79 "Finance results" are reflected.

Class 10. Off-balance accounts

Off-balance accounts are used for generalisation of the information about availability and movement of:

- values which do not belong to the enterprise, but temporarily are at its use, disposal or in custody (objects of operative (operational) lease of basic assets, material values on safe keep, processing, commission or installation);
- the conditional rights and obligations of the enterprise (pledges, warranties, obligations, etc.);
- accountable / registered forms;
- the written off assets (shortage of values, a debt receivable) for supervision over the possibility of their compensation by the guilty persons (debtors);
- depreciation charges.

Book keeping of the indicated values, depreciation charges, conditional rights and obligations is conducted using the simple system, according to which the records about the reception, writing off, usage, sale of material values, accountable forms, formation of the conditional rights and obligations, writing off from balance of property owing to shortage, damage and a debt receivable, charge and use of depreciation charges are conducted only on one below-line balance account with instructions of the contents and quantitatively-cost indexes operations.

Commodities and materials are reflected via the contractual cost or at cost which is indicated in acceptance report. The rented basic assets are reflected at cost which is indicated in agreements of operative (operational) lease. Accountable / registered forms are displayed on an arbitrary value and established order. The conditional rights and obligations are reflected at the cost indicated in documents on warranties and obligations. Commodities and materials and the basic assets, which cost is displayed on below-line balance accounts, inventories as it should be which acts for the values reflected on balance accounts of the corresponding class are subject.

Theme 4. Problems and principles of accounting

Lecture 5

The basic *accounting problems* are:

- the formation of knowledge system about the accounting theory and practice at the enterprises;

- studying of methods of the rational organisation and accounting methods at the enterprises on the basis of use of progressive forms and national standards;

- acquisition of skills of accounting information processing and use in management.

Accounting and financial accountability are based on the following *main principles*:

Autonomies of the enterprise, according to which each enterprise is considered as the legal body, separated from its holders. In this connection, personal property and obligations of holders should not be reflected in the financial accountability of the enterprise;

Continuity of activity, which provides a valuation of enterprise's assets and obligations, proceeding from the assumption, that its activity will continue in the future;

Periodicity, which assumes distribution of activity of the enterprise to the certain periods of time for the purpose of financial accountability drawing up;

Sequences, which provides constant (from year to year) application of the selected accounting policy by the enterprise. Accounting policy change is allowed only in cases provided by the national Regulations (standards) of Accounting, and should be reasonably disclosed in the financial accountability;

The historical (actual) cost price, which defines a priority of valuation of enterprise's assets, proceeding from costs for their production and purchase;

Charges and conformity of incomes and costs, according to which, to define the financial result for the accounting period, it is necessary to compare incomes of the accounting period with the relevant costs, carried out to gain these incomes. So, incomes and costs are reflected in Accounting and the financial accountability at the moment of their occurrence, irrespective of date of money resources reception or payment;

Complete representation, according to which the financial accountability should contain all the information about the actual and potential consequences of economic operations and events, which can affect the decision, made on its basis;

Discretion, according to which methods of valuation, applied in Accounting, should prevent underestimation of obligations and costs and overestimation of enterprise's assets and incomes;

Prevalence of essence over the form, according to which the economic operations are considered according to their essence, and not just proceeding from the legal form;

Uniform monetary measuring instrument, which provides measurement and generalisation of all economic operations of the enterprise in its financial accountability in uniform monetary unit.

Theme 5. Method of Accounting

Lecture 6

5.1 The contents of the balance

The subject of Accounting is the whole economic activity of the enterprise.

The accounting method is a set of methods that help to reflect the subject of Accounting. The basic elements of the accounting method the documentation, inventory, system of accounts, dual recording, estimation, calculation, balance, reporting.

Accounting (Book keeping) is the process of continuous cost reflection of the information about the changes in condition of assets, ownership capital and obligations of the enterprise. Obligations in Accounting are identified with enterprise's accounts payable. The accounts payable arise after events, owing to which the enterprise becomes someone's debtor. The given indebtedness is the result of reception by the enterprise of money resources, goods or advance payments from the other enterprises on credit. The indebtedness also arises at approach of tax payment term, charge of wages to workers and in other situations in which the enterprise will be compelled to carry out certain obligations.

The accounting of assets, obligations and ownership capital and changes of their condition is needed, first, for holders and administration of the enterprise, to control the efficiency of management's economic activities. Besides, according to the legislation of almost all countries of the world, including Ukraine, the enterprises are obliged to grant corresponding state bodies the information about the structure and cost of the assets, obligations and ownership capital by the beginning and the end of the accounting period. The accounting period, as a rule, is a year. Ukraine here is not an exception, but domestic enterprises should grant the corresponding reports by cumulative total in the course of the year quarterly.

5.2 Structure and bases of balance construction.

In Ukraine the form and the contents of the Balance are regulated by the National Regulation (standard) of Accounting the №1 "General requirements to the financial accountability". The balance consists of two parts: assets and liabilities. All assets, which are at the command of the enterprise, are reflected in the first part by the cost. Section I of liabilities reflects the information about the cost of ownership capital of the enterprise, sections II and III - sums of the accounts payable.

Liabilities consists of the ownership capital and the accounts payable, and it is possible to say, that they show, which part of assets of the enterprise is in its property, and which is borrowed and should be returned. It is also possible to say, that the essence of the first section of liabilities consists in the fact that it expresses that part of assets, which - irrespective if it is the basic assets, money resources, the goods or a debt receivable - remains in the enterprise's property after the repayment of all the accounts payable.

The market value of assets may differ from the cost by which they are reflected in the balance, so there may be a necessity for their sale at higher or smaller price. However, it does not change the essence of the first section of liabilities of the balance, because according to a principle of the historical (actual) cost price all assets should be reflected in the accounting and balance under the manufacturing cost price or the cost of acquisition. It means that at acquisition of goods on credit or at advance payment reception, the enterprise will increase the sum of assets, which are at its disposal, and will simultaneously increase the accounts payable by the same sum. Thereby in balance, the increased assets will be shown, and the increased accounts payable will indicate, that they do not belong to the enterprise.

The sum of own assets (capital) thus remains same. In this case own assets and the ownership capital are synonyms because the capital not necessarily means the available sum of own money resources. It can exist also in the form of other own assets, but be indicated thus in money terms.

Theme 5. Method of Accounting

Lecture 7

5.3 Accounts in bookkeeping as an information model of accounting objects.

Active accounts – the accounts intended for the accounting of condition, movement and changes of economic means by their kinds.

Passive accounts – the accounts intended for the accounting of a condition, movement and changes of sources of means at the enterprise.

Synthetic accounts – accounts, which help to reflect the condition and movement of economically homogeneous kinds of economic means by their structure and placing, and also by the sources of their formation and designated purpose in money terms. Analytical accounts – accounts, which help to give the detailed characteristic of the given synthetic accounts. Ownership capital – a part in assets of the enterprise, which remains after the subtraction of its obligations.

Incomes – increase in economic gains in the form of reception of assets or reduction of obligations, which lead to ownership capital growth (except for growth of the capital at the expense of instalments of holders).

Costs – reduction of economic gains in the form of decrease of assets or increase in obligations, which lead to ownership capital reduction (except for a capital reduction at the expense of its withdrawal or distribution by holders).

Approaches to an estimation of separate elements of financial reports are considered in corresponding standards of accounting.

5.4 Principle of dual recording at the accounts and its control significance.

It is possible to express a major principle of balance construction with the following formula 5.1

$$K = A - O , \quad (5.1)$$

where K – Sum of ownership assets (capital) of the enterprise in money terms; A – Sum of all assets, available at the enterprise, in money terms; O – Sum of creditors obligations of the enterprise (borrowed assets) in money terms.

As it is possible to present the formula in other order: $A = K + O$, and considering that formula 5.2

$$K + O = L , \quad (5.2)$$

where L - liabilities in a final form of the formula 5.2 will have the appearance of the following equation 5.3

$$A = L . \quad (5.3)$$

This major principle of balance construction called a principle of duality or principle of double representation. It means that in balance, the information about the value of property (assets) of the enterprise, which is at its disposal, and the information about the value of own and borrowed property, should be resulted simultaneously. Therefore, in any balance, if it is made correctly, the assets always should be equal to liabilities.

In balance, assets are divided by non-negotiable and circulating, accounts payable, accounts receivable and financial investments – by long-term and current. The non-negotiable assets are the assets with an economic life of more than one year. The main part of such assets are called basic assets. The minimum value limit of assets with an economic life of more than one year for the purpose of their reference to the basic assets is regulated legislatively (6000 UAH w/o the VAT), but in Ukraine enterprises are allowed to choose this limit independently, so less expensive objects of non-negotiable assets may be also considered as basic assets. The basic assets are different buildings, structures, cars, production assets, computers, intangible assets, etc. Assets, which have the economic life of less than one year, as a rule, belong to circulating assets. It is the goods, materials, production of own manufacturing and work-in-process, money resources, etc. Accounts payable, accounts receivable and financial investments, depending on term of their offset of more or less than one year, may be long-term or current.

The debt receivable at the enterprise arises when legal or the physical person becomes its debtor, financial investments – if the enterprise purchase shares or the share in an authorised capital of other enterprises, bonds, etc.

The balance is a method of grouping and representation of assets by structure and the characteristic of their property in money terms for the certain moment.

Financial investments and debt receivable are also considered as assets in balance. It is because they answer the definition of asset in that understanding, that the asset is supervised by the enterprise and can be exchanged by the other assets, including money resources, in the future. Having acquired shares (the share in the authorised capital of other enterprise), the enterprise can sell them and get the reception of money resources or other assets in the future. The same with debt receivable. Debt receivable offset means, that the enterprise has received certain assets from the debtor, it is possible to say, that in balance there

is an exchange of the indebtedness for these assets. The enterprise can concede a chose in possession of a debt from this indebtedness to other enterprise and receive something in exchange.

Theme 6. The system of accounting

Lecture 8

6.1 Documents and document circulation

Document circulation – movement of accounting documents at the enterprise from the moment of their creation until the end of the processing and transfer to the archive.

Accounting documents are divided by:

- purpose;
- the order of drawing up;
- method of operations reflection.

By the purpose, accounting documents are divided by executive, justificatory, documents of accounting registration, and combined.

By the order of drawing up: primary, consolidated (summary).

By the method of operations reflection: single, accumulative.

6.2 Accounting registers

Accounting registers are paper or machine carriers of the established format, which are applied for registration and grouping of data about availability of means and operations with them, fixed by the primary data carriers.

By the character of accounting entries, accounting registers may be divided by regular, chronological, combined.

By implication: synthetic, analytical.

By the appearance: accounting books, cards, statements.

6.3 The basic normative documents, which regulate the accounting in Ukraine.

In Ukraine the bookkeeping order is regulated by the Law of Ukraine “About the bookkeeping and a financial accountability in Ukraine” from 16.07.1999 № 996-XIV.

This Law extends on all legal bodies created according to the legislation of Ukraine, irrespective of their organizational-legal forms and forms of ownership, and also on offices of foreign subjects of economic activities which are obliged to carry out book keeping and to submit financial statements according to the legislation.

State regulation of book keeping and financial accountability in Ukraine is carried out by the Ministry of Finance, National bank, the Treasury, ministries and other central executive authorities within the permissions provided by the legislation, with the purpose of:

- creations of uniform rules of bookkeeping and drawing up of a financial accountability, which are obligatory for all enterprises and guarantee and protect interests of users;

- for book keeping and financial accountability improvement.

Regulation of questions of methodology of bookkeeping and financial accountability is carried out by the Ministry of Finance of Ukraine, which confirms national regulations (standards) of bookkeeping and other regulatory legal acts concerning book-keeping and financial accountability drawing up.

The law about the book keeping defines, that the national regulations (standards) of book keeping are the basic normative legal documents in system of book keeping regulation, which define principles and methods of book-keeping and drawing up of the financial accountability and do not contradict the international standards.

In the process of bookkeeping according to the regulations (standards) of bookkeeping, it is also necessary to take into account the requests of other standard documents of Ministry of Finance of Ukraine:

“Card of accounts of book keeping of assets, capital, obligations and economic operations of the enterprises and organisations” and the “Instruction about application of the Card of accounts of book keeping of assets, the capital, obligations and economic operations of the enterprises and organisations”, from 31.11.99 №291;

The order of Ministry of Finance of Ukraine from 29.11.2000 №302 “About notes to the annual financial accountability”;

“Methodical recommendations about application of registers of book keeping”, from 29.12.2000 №356;

The order of Ministry of Finance of Ukraine from 28.03.2001 №143 “About the correspondence of accounts”, etc.

The order of submission of the financial accountability is confirmed by the decree of the Cabinet of Ukraine from 28.02.2000 №419, according to which term of submission of a quarter financial statements (except summary and consolidated) is established on 25 date of a month, following accounting quarter, and annual – till February, 20th.

Theme 7. Financial accountability

Lecture 9

7.1 Significance and requirements to the accountability

The quarter financial accountability is intermediate and objectively cannot comprise some important sheets and characteristics of the annual financial report. The quarter financial accountability moves to users only as a part of Balance and the Report about the financial results.

Financial accountability – accountability, which contains the information about the financial position, results of activity, movement of money resources and own capital (net worth) of the enterprise for the accounting period.

The general requirements to financial accountability are stated in articles 11-14 of the Law “About book keeping and Financial accountability in Ukraine” and in NR(S)BK № 1 “General requirements to the Financial accountability”.

The purpose of the financial accountability drawing up is granting to users of the complete, truthful and unbiased information about the financial position, results of activity, movement of money resources and changes in the enterprise ownership capital, which is required for decision-making regarding:

- acquisitions, sales and holding of securities;
- sharing in the enterprise’s capital;
- evaluation of management quality;
- evaluation of ability of the enterprise to carry out its obligations in time;
- security of obligations of the enterprise;
- definitions of the sum of dividends, which are subject to distribution;
- regulation of activity of the enterprise;
- other decisions.

7.2 Kinds of the accountability, its basic indicators

The following reports are included in the structure of the financial accountability of the enterprises (except budgetary organizations, offices of foreign subjects of economic activity and the subjects of small business recognised as those according to the current legislation):

1. Balance sheet (statement of financial position, statement of financial condition, statement of balance, statement of assets and liabilities);
2. The report about the financial results (profit-and-loss report, profit-and-loss statement, income statement);
3. The cash flow statement;
4. The report about the ownership capital (own capital statement, net worth statement);
5. Notes to the financial accountability.

7.3 The order of drawing up and submission of the accountability

The whole cycle of book keeping, from the realisation of operation until financial accountability drawing up, may be divided into the following stages:

1. Reflection of all operations in primary documents.
2. Analysis of the operation, its recognition and estimation according to requests of (N)R(S)BK, and reflection in certain registers of book keeping (statements, journals, etc.).
3. Entering of records concerning assets and obligations by the results of inventory into registers.
4. Transferring of data to the Ledger.
5. Closing of incomes and costs accounts.
6. Turnover balance drawing up.
7. Financial accountability drawing up (Balance sheet, Report about the finance results, Cash flow statement, Report about the ownership capital, Notes).

Turnover balance is a list of all accounts with the balances (rests) by the beginning of the accounting period, turnovers by the debit and the credit of accounts and balances by the end of the period. It is based on data of the Ledger and allows checking the equality of the rests by the debit and credit and equality of debit and credit turnovers for the accounting period. Balance sheet and Report about the financial results are made on the basis of turnover balance.

The main requirements to the accountability is an obligation of its representation, state regulation, timeliness of drawing up and granting, simplicity, clearness and general availability, reliability, unity of techniques of reporting indicators, comparability of reporting indicators for the different periods, relevance, rationality, efficiency and effectiveness.

Financial reporting should contain the data about:

- enterprise;
- date of the reporting and accounting period;
- currency of the reporting and unit of its measurement;
- corresponding information about the reporting and previous period;
- accounting policy of the enterprise and its changes;
- consolidations of the financial statements;
- liquidation of separate kinds of activity;
- restriction concerning the ownership of assets;
- participation in cooperation management of enterprises;
- revealed errors for the previous accounting periods and adjustments, connected with them;
- revaluation of items of financial statements;
- other information, which disclosing is provided by the relevant Regulations (Standards) of Accounting.

The financial reporting in Ukraine is formed with observance of ten principles formulated in item 4 of the Law of Ukraine «About the book keeping and the financial accountability in Ukraine» and item III.6 of NR(S)BK #1.

Except financial accountability, the enterprise should submit the other forms of the reporting. For the purpose of streamlining and simplification of drawing up of the reporting, they are classified by the certain signs, presented in illustration 9.1.

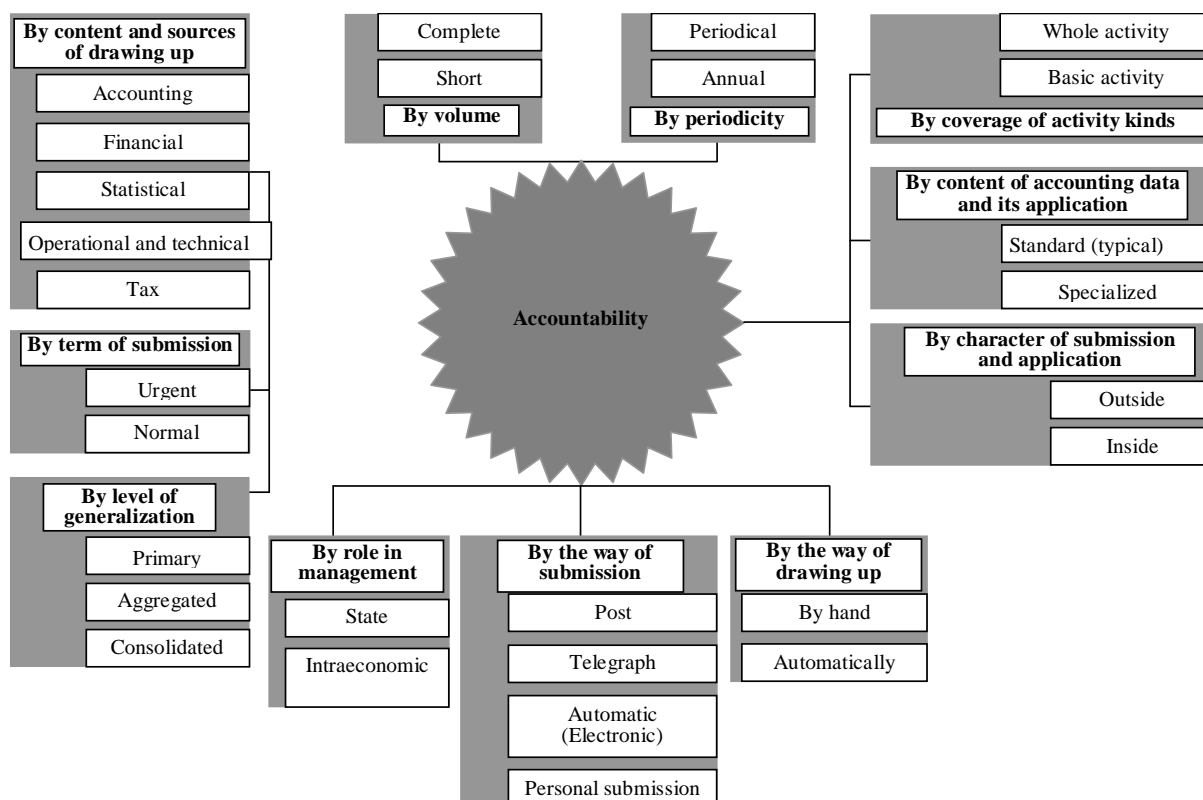


Illustration 9.1 – Classification of accountability (reporting)

Theme 8. Documentation and inventory

Lecture 10

8.1 Documentation, its nature and importance

Documentation provides a continuous and uninterrupted course of business reflected by recording of each business transaction in the documents.

Document - a properly composed and drawn business paper, affirming the right to implement the business transaction or its actual implementation, containing its signs and indicators to be accounted for.

That is, the document is written evidence of actual implementation of business transaction or a written order for the right to its implementation and provides the valid data records.

Documentation is continuous and total reflection of business operations with the help of accounting documents.

8.2 Classification of documents

By appointment, documents are divided into administrative (contain provisions for the implementation of commercial operations); executive (confirmation of business transaction); combined.

By the order of drafting the documents are:

- primary (contain the information about the business operation and confirming its implementation);
- summary (prepared on the basis of primary documents to group and summarize their data).

By way of coverage of operations documents are:

Disposable (one-time, used for registration of one or more business transactions, recorded in a document at the same time);

Accumulative (used for reflection of homogeneous business operations during a certain period).

The places of making the documents are divided into internal (inside the enterprise), external (coming to the company from the other firms).

8.3 Details and errors corrections in documents

Measures (вимірники), which contained in the document and characterize the operation, called its details (реквізити). The number and content of details of the operation is determined by the nature and purpose of the document. However, each document has the required details mentioned in the Law of Ukraine "About the Accounting and Financial Reporting in Ukraine" № 996 of July 16, 1999. Mandatory details of the document are:

- name of the document;
- date and place of drawing up;
- name of the company, on behalf of the document;
- content and scope (volume) of business operations, business unit of operations;
- persons, responsible for the implementation of the business transaction and correctness of its execution;
- personal signature or other evidence to identify the person who has been involved into the business transaction.

There are many documents, in which corrections are not allowed. These include, for example, cash and bank documents, forms of strict accountability and other. Forms of strict accountability – documents, made on special paper forms, which do not allow making erasures or corrections on them. There is a strict control established over their safety and use.

In those documents, which allow correction of errors, the thin line crosses out incorrect entry (so you can see what is crossed out), on the top the correct data is written and confirmed by the signatures of persons, who are responsible for the document.

The persons who prepared and signed the documents are responsible for the untimely preparation of basic documents and for inaccuracy of the data reflected in them.

8.4 Flow of documents

Movement of documents between time of their creation or reception from the other companies and organizations for accounting application and transfer to the archive, called workflows.

Documents, created in other than accounting department, should be transferred there after the business operations, in the manner and the terms defined by the Chief Accountant. In accounting, all documents shall be subjects to the accounting treatment, the purpose of which is to prepare the document for the following entries in the accounting records. The accounting treatment of documents means:

Verification (documents are checked in form, content and arithmetic);

Pricing (таксування) (checking of the the appropriate boxes of documents with prices and financing, or monetary value of physical indicators);

Grouping (combining homogeneous content of the documents into groups and write to the storage information for the grand total for each group);

Quoting (котування) (indicating the corresponding accounts).

Documents are stored in the accounting department, usually till the end of the year, and then transferred to the permanent archive of the company. Archived documents are stored within the specified period, but not less than three years.

Theme 9. Types of economic operations and their influence on the balance

Lecture 11

The balance sheet is not only one of accounting method components, but also one of the major sources of the information for management.

Constituting (elements) of an accounting method are interconnected, as they follow from forms and methods of conducting of accounting and control.

Division of economic operations into types has theoretical and practical value, which should be considered in the course of the statement of the form of the balance sheet, determination of its structure and content, use for an estimation of a financial condition and ability to meet payments of the enterprise.

The first type of economic operations influences only the assets of balance sheet, bringing changes into contents and placing of non-negotiable and circulating assets, and deferred expenses. Thus the balance sheet currency does not change, including intangible assets, build in progress, basic assets, long-term financial investments, long-term debt receivable, stocks, a debt receivable for the goods, works, services, a debt receivable by accounts, current financial investments, means and their equivalents, deferred expenses. Economic operations receive character of the initial information, which makes not simply changes to enterprise assets, but also becomes the reason of respective alterations in a content and placing of an equity and obligations.

The second type of economic operations influences only the balance sheet liabilities, bringing changes in a content and placing of an equity and obligations. Thus, the balance sheet currency does not change.

The majority of economic operations of the second type leads to change of balance sheet items within one section. Such operations concern: display of the sum of the VAT in accounts of contractors and the design organizations; contribution reflection at the cost resulted in constituent documents (in this case the balance sheet item "Authorized capital" increases, and the clause «Unpaid capital» decreases on such the sum); reflections of the sum of depreciation invaluable and high-wear subjects in case of their transfer in a content of fixed assets («Depreciation of other non-negotiable material assets» decreases and «Depreciation of fixed assets» increases – in the balance sheet the clause "Depreciation" is placed in the assets as such which regulates an estimation of corresponding values); Reflection of the deposited salary (in the current business accounting the indebtedness on a salary decreases and the sum of calculations

with depositors increases – in the balance sheet it occurs within one clause «Current obligations by calculations on payment»).

The third type of economic operations influences the assets and a liability of the balance sheet towards increase, that is the balance sheet currency in the assets and a liability increases by the equal sums.

Operations of the third type are conducted in rather significant amount. They cover various situations and processes of production and financial and economic activity of the enterprise and always are in dynamics. The most typical operations of this type are: acquisition of fixed assets for money funds - sum reflections on delivery treaty (sum increase under the clause "Construction in progress" of a balance sheet asset and sum increase under the clause «Accounts payable for the goods, works, services» a balance sheet liability); Reflections of the sums for consulting, information, intermediary, registration, transport services and other expenses connected with acquisition of fixed assets (changes occur on the same clauses, as at the previous operation) target financing receptions on building from external sources (increase in the sums under the clause «Money funds and their equivalents» a balance sheet asset and under the clause "Target financing" of a liability of the balance sheet).

The fourth type of economic operations influences the assets and a liability of the balance sheet towards reduction, that is the balance sheet currency simultaneously decreases for the equal sums. In comparison with economic operations of the first and third types, the number of such operations is much lower. Most typical of them are: reflection of depreciation of the implemented, liquidated, transferred fixed assets, issue from cash desk of a salary to workers (the sum under the clause «Current obligations by calculations on payment» a liability of the balance sheet and the sum under the clause «Money funds and their equivalents in native currency» a balance sheet asset decreases).

At each enterprise, depending on branch features and production volumes, a considerable number of economic operations executed daily. If consider the enterprise as a whole, the operations of the first and third type occur in about 70% of cases, and the quantity of operations of both these types is almost identical. The quantity of operations of the second and fourth type is also almost equal, and they appear in about 30% of cases.

All economic operations, irrespective of type, are reflected on accounts of bookkeeping.

Theme 10. Valuation and calculation

Lecture 12

10.1 Monetary meter in accounting.

A feature of accounting is the reflection of economic funds, sources of their formation and economic processes in money term. To do this, one should use the elements of the accounting method, such as valuation and calculation.

The cost measurement of accounting objects is considered as a prerequisite for their subsequent recognition. The evaluation includes three elements: 1) an object or an event; 2) the property to be quantified (quality, attribute, characteristic); 3) the scale of measurement or the essence of the property expression units. Any object or event has several properties that can be measured.

A single monetary meter is an important principle of accounting and financial reporting, according to which the measurement and generalization of the company's business operations in financial reporting is carried out in a single monetary unit, namely – in the monetary unit of Ukraine – the hryvnia.

Valuation – a method of monetary measurement of accounting objects, the essence of which is to recalculate the physical and labor characteristics of accounting objects in value. The evaluation is based on the following principles:

- reality – ensures that the monetary expression of accounting objects is in accordance with their actual value;
- adequacy – provides an accurate calculation of the actual cost of all objects of accounting through inventory and revaluation;
- uniformity – ensures the unity of approaches and the invariability of the evaluation over a long period of time by all economic entities by establishing binding regulations (standards), instructions and rules for accounting and calculating.

Since it is not always possible and sometimes economically inexpedient to obtain an actual estimation of economic means and their sources, instead of determining the actual value, certain accounting assumptions regarding the cost measurement of a particular accounting object – the basis (methods) of estimation are used.

10.2 Types of valuation of accounting objects

Accounting standards provide the possibility of applying different bases of valuation at the same time with different degrees and in different combinations, namely:

- historical cost – assumes that assets are recognized by the amount of cash or cash equivalents paid, and liabilities by the amount of revenue received in exchange for these obligations;

- current cost – assumes that assets are shown by the amount of cash or cash equivalents that would have been paid in the case of the acquisition of the same or similar asset at the current time, and liabilities - under undiscounted cash or cash equivalents that would have been required to pay off obligations at the moment;

- value of sale – assumes that the assets are shown in the books by the amount of cash or cash equivalents that could be received at the current time by selling the asset in the ordinary course of sale, and the liabilities – by the cost of their redemption, that is, under the undiscounted amount of cash, which is expected to be paid for the discharge of obligations in the ordinary activities of the enterprise;

- current value – assumes that assets are displayed at the present discounted value of future net cash inflows that are expected to be generated by the object of accounting in the normal course of business, and liabilities are recorded at the present discounted value of future net cash outflows (payments), expected to be necessary to settle liabilities in the normal course of business.

Estimates of various accounting objects (assets, liabilities, capital, business processes) are determined by the relevant accounting standards. For each object, several situations are modeled, in which they are evaluated on a different basis. For example, the valuation at acquisition, retirement (write-off), on the balance sheet date. At acquisition, assets are estimated by the primary value, which, basically, is equal to historical (actual) cost price of an asset. In cases of free reception, exchange or transfer of assets to the statutory fund, an evaluation is made at fair value, the amount at which an asset can be exchanged or a liability settled as a result of an operation between knowledgeable, interested and independent parties.

Acquired (created) basic assets are credited to the balance of the enterprise by the primary value, that is, historical cost in the amount of cash or the fair value

of assets paid (transferred) at the date of acquisition (creation) of such basic assets. As a result of the operation, the basic assets wear out, gradually transferring their value to the produced products, so they are included in the balance sheet at the residual (book) value, which is calculated as the difference between the primary value and the amount of accrued depreciation.

Stocks of inventory are brought to the balance by the primary value, which includes the purchase price (excluding VAT), transportation and procurement costs. Inventories received as a result of barter transactions are initially measured at fair value. Inventories at disposal are estimated using the identified unit cost of inventories, average cost, cost of first-in-time receipt of inventories (FIFO), standard costs, sales prices.

Accounts receivable for goods, works, services are recognized as an asset at the same time as recognition of income from sales and are evaluated by the primary value equal to the fair value (contract value). Current estimation of accounts receivable is carried out at net realizable value, which is defined as the difference between the primary value and the reserve of doubtful debts. The reserve is defined on the basis of the solvency of individual debtors or on the basis of the classification of receivables by maturity.

Depending on the nature of the obligation, its urgency, the method of repayment, the assessment of obligations can be carried out on the basis of historical or current cost, the cost of repayment or present value.

Theme 10. Valuation and calculation

Lecture 13

10.3 Calculation as a system for calculating the production cost price

Calculation is a method of calculating the cost price of products manufacturing, performing of works or providing services by measuring and distributing costs related to a particular calculation object (product, process, order, etc.). Accounting of capital turnover is based on three calculations: the cost price of acquisition (delivery, purchase), manufacturing cost price and the full cost price of products sold.

The following economic elements of costs are considered: material, payment of labor, deductions for social needs, depreciation, other operational costs. The grouping of costs by the economic elements characterizes their

relationship to product creation, but does not reflect the purpose of production costs. Therefore, production costs are rearranged by costing items, which gives an idea of their purpose and role in the production process. The enterprise independently selects a list of calculation items taking into account the specificity of the manufactured products and the technological features of the organization of production.

Classification of costs:

1. By the economic content:

- costs of means of labor;
- costs of labor items;
- costs of living labor.

2. By stages of capital turnover:

- expenses for supply (procurement);
- manufacturing costs;
- sales costs.

3. By the economic elements:

- material costs (operational costs, raw and basic materials, purchased half-finished products and components, fuel and energy, packaging and packaging materials, building materials, spare parts, etc.);

- labor costs (expenses for the payment of basic and additional wages in accordance with the payment system adopted at the enterprise, payment of vacations, compensatory and other payments);

- deductions for social activities (for pensions, social insurance, in case of unemployment, individual insurance);

- depreciation (the amount of accrued depreciation of basic assets, other non-negotiable tangible assets and intangible assets);

- other operational expenses (cost of works and services of third party organizations, amount of taxes and fees, losses from exchange rate differences, depreciation of inventories, write-off and depreciation of assets, amount of financial sanctions, etc.).

4. By connection to the technological process:

- basic – the costs directly connected with manufacturing of the product, consumed in a single production process;

- overhead (general manufacturing) – the costs for maintenance and management.

5. By the method of reference to cost price:

- direct – directly included into the cost price of production;
- indirect – are included in the cost price of production on the basis of distribution data.

6. By the volume of production:

- fixed – at a certain interval not depending on the volume of production;
- variable – change with a change in the volume of production (proportionally, progressively, regressively, stepwise, etc.);

7. By composition:

- one element (simple);
- complex - contain several economic elements of costs.

8. By the sphere of origin:

- manufacturing;
- non-manufacturing.

9. By the calendar periods:

- current;
- future expenses;
- costs of past periods.

10. By connection to the finished product:

- expenses for work in progress;
- cost price of finished products;

11. In terms of coverage by rationing:

- normalized;
- not standardized.

The following objects of cost accounting for production are put in the basis of analytical detailing and grouping of costs:

Place of costs occurrence – structural units of the enterprise, for which planning, rationing and recording of production costs are organized to control and manage the expenditure of resources (workshop, site, team)

Cost center – primary production and service units characterized by uniformity of functions, operations performed, level of technical equipment, labor organization and expenditure direction;

Responsibility center – units and responsible persons, who bear collective and individual responsibility for carrying out expenses and interested in reduction of the cost price.

Calculation is aimed at identifying the cost price of production. Objects of calculation are the products of labor – the types of products, half-finished products, partial products (parts, nodes) of different degree of readiness, works, services for which information on their cost is needed.

Calculation is the way to calculate the cost price of a product. Types of calculation:

- planned – is compiled on the basis of the planned volume of production and planned costs;
- estimated - based on the planned volume of production and estimated costs;
- normative – is formed on the basis of the norms of consumption of means of production and working time and the standard volume of output;
- reporting – is compiled on the basis of actual expenses for the reporting period and the actual volume of production.

Calculation method – a set of methods of analytical accounting of production costs and methods for calculating the cost of calculating objects. There are such methods of calculating the cost price:

- simple – used in single-product manufacturing, where all costs go to this product. Most often this happens in one workshop. The cost price of a unit is calculated by allocating costs for the quantity of manufactured products;
- coordinated – used in consecutive production (where one technological stage occurs after another) and the technological process is divided into separate parts - redistributions (processes), for each of which costs are separately taken into account. Expenses of the previous redistribution are included into the cost price of the following, and at the last redistribution the cost of the finished product is calculated;
- custom – used in complex parallel manufactures, when separate units of products are simultaneously manufactured in different workshops, which are then

completed in assembly workshop. Expenses are grouped according to the orders for which they are incurred;

- normative – expenses are accounted by norms, and the actual cost price is defined as the algebraic sum of expenditures by norms, deviations from norms, and changes in norms.

The relationship between valuation and calculation is that the price is used to make the calculation, and the calculation is used to calculate the cost price of the new (created) accounting object.

Theme 11. Essence of audit, its contents, purposes and tasks

Lecture 14

11.1 Essence of audit and auditing practice

Audit (auditors check) is an independent check for the purpose of expression of opinion about reliability. The word "audit" in a translation from Latin, means "hearing" and is applied in world practice to designation of check.

Audit is any check of any phenomenon or activity executed by the independent experts.

Audit of Accountability is the independent check, carried out by the auditors organization, and its result is an expression of auditors opinion about the degree of reliability of accountability of the economic subject.

Audit – one of forms of the financial control, requirement in which has arisen simultaneously with origin and development of goods exchange and monetary relations. China about 700 B.C. was the first country, which has created the system of the financial control. Audit was already known in Europe in the Middle Ages, however as the science and economic activities kind it actively develops since the XIX century. In the Middle Ages at the desire of counterparts of merchants (as a rule, other merchants or bank institutes) auditors checked the accounting books of merchants and testified their reliability. In XIX century, the basic customers of audit became, besides creditors, proprietors of the company – that is connected with active development of the joint-stock and limited companies in which proprietors were not engaged in the current management and, accordingly, required periodic check of the employed managing directors. Besides, in process of growth of the state interference in economy and

complication of taxation system, the company began to feel necessity for independent experts, which could check up the accounting and tax accounts for the purpose of revealing of errors and distortions of the reporting and prevention of sanctions from the state bodies. In the XX century, in connection with active development of equity market, there was a new category of the persons interested in audit – investors. From the middle of the XX century auditors began to expand the sphere of their interests and started to carry out activity not only on accounts acknowledgement, but also began to carry out book keeping for the third-party firms, acting in a role of the joint corporate accountant and the lawyer, and also the investment adviser and the confidential managing director for the clients. Besides, scientific and technical revolution has compelled the auditor companies to run in functions on introduction of modern technologies on business operation, accounting automation, introduction of monitoring systems of quality and other adjacent works.

The auditor – the private person or the firm, which performs the audit.

Auditor activity represents enterprise's activity on performing audit and adjacent works and services.

Adjacent works and services for audit – enterprise activity of auditors or the auditor's organisations, following the basic directions: accounting services; services in performing of checks and examination not being audit; consultation services; training and other services of the auditor profile. All these kinds of activity require from the executor the competence in the areas of audit, bookkeeping, control and analysis of economic activities, finance and economy as a whole, taxation, business law.

Actually only the professional auditor, who has the special certificate, has the right to perform audit.

Audit can be conducted concerning any legal bodies irrespective of their organizational-legal forms and activity kinds, and also any physical persons attending to enterprise activity without formation of the legal person and registered as businessmen.

11.2 The purposes of audit and its problems

The purpose of financial reports auditors check:

- acknowledgement of reliability of reports or ascertaining of their unreliability;

- the control of observance of the legislation and the standard regulating rules of record-keeping and drawing up methodology of evaluation of assets, obligations and own capital;
- acknowledgement of completeness, reliability and accuracy of reflexion of assets, obligations, internal funds, expenses, incomes and finance results of activity of the enterprise for the checked period in the accounting and reporting;
- revealing of reserves of the best use of own and circulating assets, financial reserves and extra means.

Reliability of accounts is understood as such degree of reporting data accuracy, which allows the qualified user of the reporting information to make on its basis the correct conclusions about the financial position and results of activity of the checked organisations and to make the reasonable decisions.

The main objective of audit, according to the contract, can be supplemented with the revealing of reserves of financial resources best use, the analysis of correctness of taxes computation, working out of actions for improvement of the enterprise financial position, costs and results of activity, incomes and costs optimisation.

To achieve the main objective and grant the conclusions, the auditor should answer the following questions:

1. The general acceptability of the reporting: whether the reporting corresponds as a whole to all requests presented to it and contains the questionable information;
2. Validity: whether there are bases for inclusion in the reporting of the sums, indicated there;
3. Completeness: whether all proper sums are included in the reporting; in particular, whether all the assets and liabilities belong to the enterprise;
4. Estimation: whether all items are correctly evaluated and unmistakably calculated;
5. Classification: whether there are bases to carry the sum on the specific account;
6. Division: whether the operations that are conducted shortly before the date of the balance drawing up or directly after it, are assigned to the correct accounting period;
7. Accuracy: whether the sums of separate operations correspond to the data resulted in books and journals of analytical accounting, whether they were

correctly summarised, whether the total amounts correspond to the data resulted in the Ledger;

8. Disclosing: whether all the items are brought in the financial accounting and correctly reflected in reports and appendices to them.

Theme 12. Principles of audit

Lecture 15

The auditor organisations in the process of their activity are obliged to observe and use as a basis for acceptance of any professional decisions the following ethical principles: independence; honesty; objectivity; professional competence; conscientiousness; confidentiality; professional behaviour.

Independence – forming his opinion, auditor do not have to have financial, property, related or any other interest in affairs of the checked economic subject, exceeding the relation by agreement on realisation of auditor services, and also any dependence on the third parties. Requirements to the auditor regarding maintenance of independence and criteria of that the auditor is not dependent, are regulated by standard documents on auditor activity and ethical codes of auditors.

Honesty is an obligatory adherence of a professional duty by the auditor and following to the general rules of morality.

Objectivity is a compulsion of impartiality, impersonality and non-obedience to any influence in the process of consideration of any professional questions and formation of judgements, conclusions and opinions.

Professional competence is a compulsion of possession in necessary volume of knowledge and skills, allowing the auditor to render professional services qualified and qualitatively.

Conscientiousness (scrupulosity, bona fides) is a compulsion of rendering of professional services by the auditor with due carefulness, attentiveness, efficiency and proper use of abilities. The conscientiousness principle means the assiduous and responsible relation of the auditor to work, but should not be treated as the warranty of faultlessness in auditor activity.

Confidentiality is a responsibility of auditors and the auditor organisations to supply safety of the documents received or made by them during audit, not to transmit these documents or their copies (both completely, and partially) to any third parties and not to disclose data contained in them without the consent of the

proprietor (chief) of the economic subject, except for the cases provided by laws of Ukraine. The confidentiality principle should be observed strictly, even if the disclosure or distribution of the information about the economic subject cannot put it to material or other damage, in auditor's judgment. Observance of the principle of confidentiality is obligatory, irrespective of continuation or the termination of customer relations, and has no restrictions on time.

The professional behaviour is an observance of a priority of public interests and the responsibility of the auditor to support high reputation of the profession, abstaining from fulfilment of the acts incompatible with rendering of auditor services, capable to lower respect, trust to the trade of the auditor, and cause the damage to its public image.

The auditor organisation is obliged to carry out professional work, i.e. realisation of audit and preparation of an official audit report by its results, according to national and international standards of auditor activity.

Theme 13. Kinds of Audit

Lecture 16

The basic kinds of Audit are presented in the table 13.1.

Table 13.1 – Kinds of Audit

Criteria	Kinds
In relation to the users of information	1. External 2. Internal
In relation to requirements of legislation	1. Obligatory 2. Initiative
By the objects of audit	1. General audit 2. Audit of banks 3. Audit of the insurance organisations 4. Audit of exchanges, investment institutes and off-budget funds State Audit
By the purpose	1. Financial accounting audit 2. Tax Audit 3. Audit for meeting the requirements 4. Economic activities audit 5. Administrative (manufacturing) audit 6. Special (ecological, operational, etc.)

The end of table 13.1

By the time of execution	1. Initial 2. Co-ordinated (repeating) 3. Operative
By the character of check	1. Confirming 2. System-focused 3. Audit basing on risk

Internal audit – organised at the economic subject in interests of its proprietors and the monitoring system over the observance of the established order of bookkeeping and reliability of an internal control system functioning regulated by its internal documents.

The basic objects of internal audit are the solution of separate functional problems of management, working out and check of information systems of the enterprise. Objects of internal audit can be different depending on features of the economic subject and requests of its management and (or) proprietors. Internal audit is an integral part of the administrative control of the enterprise; it can also be independent, i.e. report directly to the external founders, not to the enterprise executive office.

The internal auditor bears responsibility for fulfilment of the duties only before the proprietors and (or) administration.

Thus, within the limits of internal audit not only the detailed control over the safety of assets, but also the control over a policy and quality of management is carried out.

Despite seeming distinctions, *internal* and *external audit* in many respects supplement one another. Many functions of internal auditors can be executed by the invited independent auditors; internal and external auditors may use the identical methods to solve the similar problems – the difference consists only in degree of accuracy and details of application of these methods.

In relation to legislation requirements there are *obligatory* and *initiative* audit. Audit extends on all economic subjects, including state and local governing bodies. Any economic subject has the right to invite auditors on one's own initiative. The audit which is conducted at the initiative of the economic subject (its management, proprietors, shareholders, etc.), is considered initiative (voluntary); character and scales of such audit are advanced by the customer.

Obligatory audit is regulated by the state. The law of Ukraine «About

auditor activity» establishes the basic criteria of economic subjects activity by which their accounting (financial) reporting is subject to obligatory annual auditor check.

By the objects of audit distinguish: bank audit; audit of the insurance organisations; audit of exchanges; investment institutes and off-budget funds; the general audit; the state audit. To carry out all these kinds of audit (except the state audit) auditor has to have the certificate of a corresponding kind.

Depending on the purpose, audit is divided into several kinds.

Financial accounting audit is the audit of the subject's financial accountability with the purpose to check its conformity with the established criteria and standards of accounting. This audit is conducted only by the external auditors.

Tax audit is an auditor check of correctness and completeness of charge and payment of taxes, observance of the fiscal policy.

Audit on a meeting the requirements is an analysis of the financial or economic activities of the subject with the purposes of definition of its conformity to the ordered conditions, rules or laws.

Administrative (manufacturing) audit is a check and perfection of the organisation and management of business and qualitative parts of manufacturing activity, performance evaluation of production and financial investments, productivity, rationality of funds application and their economy.

Economic activities audit is close to administrative audit and represents the regular management accountancy of the organisation, which is conducted for the separate purposes. This kind of audit, which is sometimes named the audit of an overall performance or organisation administration managerial control, has the following objectives:

- management performance evaluation;
- revealing of possibilities of economic activities improvement,
- entering of the recommendations concerning improvement of activity or the further actions.

Economic activities audit can be conducted both by request of administration, and by request of the third person, including state bodies.

Special audit (ecological, operational, etc.) is a check of concrete aspects of activity of the managing subject, observance of certain procedures, norms and rules, usually with the purpose to confirm the legitimacy, conscientiousness and

efficiency of activity of managing directors, correctness of drawing up of tax accounts, use of social funds, etc.

By the time of execution distinguish the initial, co-ordinated (repeating) and operative audit.

Initial audit is conducted by the auditor (auditing firm) for the first time for the given client. It essentially increases risk and labour input of audit, because auditors have no necessary information about the features of client's activity, its internal control system.

The co-ordinated (repeating) audit is carried out by the auditor (auditing firm) repeatedly or regularly and based therefore on knowledge of specificity of the client, its positive and negative sides in the accounting organisation, results of long cooperation with the client (consultation, the help in the internal control system organisation).

Operative audit is a short-term auditor check with the purpose of general assessment of a condition of the accounting, reporting, observance of the legislation, efficiency of the internal control and activity estimation.

By the character of check, distinguish:

- confirming audit (check and acknowledgement of reliability of accounting documents and the reporting);
- the system-focused audit (auditor examination on the basis of the internal control system analysis. It is proved, that an effective system of the internal control makes the probability of errors insignificant and the necessity for detailed revision in this case is absent; if the internal control system is inefficient, recommendations about its improvement are given to the client);
- the audit, based on risk (concentration of auditor work in areas with higher possible risk, which considerably simplifies audit in areas with low risk).

Theme 14. The services accompanying audit

Lecture 17

Rendering of services accompanying audit is understood as the enterprise activity, which is carried out by the auditor organisations besides realisation of audit.

Rendering of such services requires observance of independence, and availability of professional competence in areas of audit, book keeping, taxation, economic law, economic analysis.

Services accompanying audit may be divided into two kinds:

- the services compatible with realisation of obligatory auditor check;
- the services incompatible with realisation of obligatory auditor check.

The services compatible with realisation of obligatory auditor check, appear in areas of:

- book keeping statements;
- control of record-keeping and reporting drawing up;
- control of charges and payments of taxes and other obligatory payments;
- analysis of economic and financing activities;
- estimations of economic and investment projects, economic safety of accounting systems and the internal control of the economic subject;
- representation of interests of the economic subject by proxy before the third persons; realisations of seminars, improvement of professional skill and training of staff of economic subjects, and in particular the auditor organisations;
- scientific development, the edition of methodical manuals and recommendations about book keeping, taxation, analysis of financial and economic activity, audit, economic law;
- computerisations of reporting drawing up accounting, accounts under the taxation, the management accountancy, audit etc.;
- consultation services concerning financial, tax, bank and other economic legislation, investment activity, management, marketing, optimisation of the taxation, registration, reorganisation and liquidation of the enterprises;
- information service;
- expert service;
- selection and testing of accounting staff of the economic subject, etc.

The services incompatible with obligatory auditor check appear in areas of:

- spread-sheeting;
- book keeping restoration;
- drawing up of tax statements;
- drawing up of accounting statements.

The auditor organisation which is rendering services, should:

- act according to the task, which fulfilment is expected by the customer and which is formulated in written form (in the form of the agreement, contract,

technical project, letter of obligation, letter of inquiry, etc.);

- plan an order of fulfilment of works or rendering of services;
- document a course of works fulfilment or services rendering;
- accurately differentiate the responsibility and functions of executors, if part of the task is executed by the third-party organisations or employees who are not entering into staff of the auditor organisation;
- prepare the typical forms of the reporting on the most often executed kinds of works or services (these forms are recommended to be applied on a constant basis);
- have the monitoring system of quality of the executed works or the rendered services accompanying audit (it concerns the large auditor organisations);
- prepare the document following the results of fulfilment of works (rendering of services), reflecting results of fulfilment of the task and conclusions of the auditor organisation.

Theme 15. The rights and responsibilities of the auditor, management and other officials of the checked organization

Lecture 18

Mutual relations of the auditor and the economic subject are based on voluntariness and indemnification. Conflicts between them are solved in commercial or arbitration court. The economic subject and the auditor has the right to choose one another independently, auditor services are paid according to the agreement.

Following responsibilities are assigned to chiefs and other officials of the checked economic subject:

- creation of conditions for the auditor for duly and complete realisation of auditor check, provision of explanations to the auditor in the oral and written form;
- operative removal of the infringements in accounting and financial reporting, revealed by the auditors check.

It is forbidden to undertake any actions aimed to limit a circle of the questions, which are coming under investigation in the process of auditor check.

During auditor check and drawing up of the conclusion, auditors are

independent of the checked economic subject and any third person, including the state bodies that have entrusted to them realisation of check, and also from proprietors and managers of the auditing firm in which they work.

Auditors (auditors firms) have the right to:

- independently define forms and methods of auditor check, proceeding from requests of normative acts of Ukraine, and concrete terms and conditions of contract with economic subject or contents of the commission of agency in charge of preliminary investigation, public prosecutor, inspector, commercial or arbitration court;
- check in corpora the documentation about financial and economic activity, availability of money sums, securities, material assets, receive explanations on the questions and the additional data necessary for auditor check;
- receive under the letter of inquiry the information necessary for realisation of auditor check from third persons, including the state bodies which have entrusted check;
- involve on a contractual basis the auditors working independently or in other auditors firms, and other experts to take part in auditor check;
- refuse realisation of auditor check in case of an un-accordance of the necessary documentation, and in a case of not securing by the state bodies which have entrusted realisation of check, personal safety of the auditor and members of his family if it is necessary.

Auditors and auditing firms are obliged to:

- strictly observe legislation requests;
- immediately inform the customer:
 - about the impossibility of taking part in realisation of auditor check of the given economic subject owing to various factors;
 - about the necessity of attraction of additional auditors (experts) in connection with significant volume of work or any other circumstances;
 - conduct auditor checks and render other auditor services qualitatively;
 - supply safety of the documents received and created by them during the auditor check, and not to disclose their contents without the consent of the proprietor (chief) of the economic subject, except for the cases provided by laws.

The data received during the auditor check, conducted on the orders of agency in charge of preliminary investigation, public prosecutor, inspector of commercial and arbitration court, can be publicized before coming into force of the sentence (decision) of commercial or arbitration court only with the permission of the indicated bodies and in that volume in what they recognise it possible.

Auditor check cannot be conducted:

- by the auditors who are founders, proprietors, shareholders, chiefs and other officials of the checked economic subject bearing responsibility for observance of the accounting (financial) reporting or consisting with indicated persons in close relationship or property;

- by the auditors firms:

- concerning the economic subjects who are their founders, proprietors, shareholders, creditors, insurers, and also economic subjects in which relation these auditing firms are founders, proprietors, shareholders;

- concerning the economic subjects who are their branches or departments or having share in the capital of these auditors firms;

- auditors and the auditors firms rendering to the given economic subject services of book-keeping restoration and financial accounting drawing up;

- if there is a financial and property dependence of the auditor on the client (joint sharing in investments into other organisations, crediting, except bank, etc.);

- if there is an indirect financial participation (financial dependence) the organisations of the client;

- if there are related and personal friendly relations with directors and the higher managing staff of the organisation of the client;

- in the presence of overwork hospitality of the client, and also reception from it the goods and services in the prices essentially lowered in comparison with real market prices;

- if the auditor was in the stuff of the checked organisation in the past;

- if there is a consideration of a question on appointment of the auditor to managing or other position of the client.

Independence is considered infringed, if the transferred circumstances have arisen, continued to exist or have been terminated in the process of fulfilment of

professional auditors services.

**Theme 16. Regulation of auditing activity and responsibility of auditors
organizations
Lecture 19**

16.1 Regulation of auditing activity.

The organisation of state regulation of auditing activity in Ukraine is carried out by the Auditor Chamber.

The basic directions of Auditor chamber activity:

- development of projects of the normative acts, regulating auditing activity, including the standards of auditing activity and services connected with its realisation, on the basis of Ukrainian legislation;
- issue of auditor certificates;
- the organisation and conduct of the state registers of auditors, auditing firms and their associations.

Only the physical persons (auditors) and legal bodies (auditing firms) may be engaged in auditing activity in Ukraine.

Thus the auditors, who are carrying out the activity independently, are obliged to be registered as businessmen, without formation of the legal person.

Auditing firms, registered as the enterprises, created with the purposes of auditing activity realisation, may have any organisation-legal form provided by the legislation of Ukraine, except for the form of open joint-stock company.

Auditing firms in Ukraine carry out the activity under the condition, that the share in their authorised capital, belonging to certified auditors and (or) auditing firms with the licence, is not less than 51 %.

Auditors and auditing firms cannot carry out any other entrepreneurial activity, except auditor and other activity, connected with it.

Auditors and auditing firms may form the unions, associations and other forms for coordination of the activity or protection of the professional interests. Public auditor associations do not have the right to carry out the auditing activity directly.

The applicant can be admitted to certification, if he has the diploma about economic or legal higher education, and a length of service of not less than three years from last five years as the accountant, expert of the auditor organisation,

economist, inspector, works manager, science officer or the teacher of economic profile.

The persons, who have successfully passed the promotion examinations, receive the certificate of the auditor.

16.2 Responsibility of auditors and auditing firms.

Responsibility of auditors and the auditor organisations may be divided into several kinds:

Civil responsibility (liability) for disservice. In case of detection of unskilled realisation of the auditor check, which have led to losses for the state or the economic subject, on the ground of the decision of commercial or arbitration court, under the claim presented by the affected party, the auditor (auditing firm) may be obliged to compensate:

- losses incurred in corpora;
- costs for recheck realisation;
- the fine paid in the income of the budget, in the sum to the 100-fold statutory minimum wage rate - from the auditor, who is carrying out the activity independently, and from 100 to 500-fold statutory minimum wage rate – from an auditing firm.

Managerial (administrative) responsibility. The basic form of managerial responsibility of auditors and auditing firms – suspension of the licence for realisation of the auditing activity.

The licensing body can suspend the licence in case of:

- revealing of infringements of licence requests and conditions by the licensee by licensing body, state supervising and control authorities, other public authorities within their competence;
- failure to comply by the licensee of requests of licensing body about the removal of the revealed infringements.

Realisation by the legal or physical person of auditing activity without the licence involves the collection from the indicated persons on a ground of the commercial or arbitration court decision, under the claims presented by the public prosecutor, bodies of Board of Treasury, bodies of the state internal revenue service and bodies of tax police:

- the incomes received as a result of illegal activity – in favour of the

customers misled by them in the volumes of costs suffered by these customers;

– the fine in limits from 500 to 1000-fold statutory minimum wage rate - in the income of the budget of Ukraine.

The criminal liability. The criminal liability extends only on physical persons. According to the criminal code special article 202 «Abuse of authority by the private notaries and auditors»:

1. Use by the private notary or the private auditor of the authorities contrary to tasks of the activity and with the purposes of benefits and advantages extraction for them or other persons or harm drawing to other persons, if this act has done essential harm to the rights and legitimate interests of citizens or organisations or to the protected by the law interests of society or the state, - is punished by the fine at the rate from five hundred to eight hundred minimum wage rates... Or arrest for the term from three to six months, or deprivation of liberty for the term up to three years with the prohibition to take certain positions or to carry out certain activity for the term up to three years.

2. The same act made... Repeatedly, - is punished by the fine at the rate from seven hundred minimum wage rates to one thousand... Or arrest for the term from four to six months, or deprivation of liberty for the term up to five years with the prohibition to take certain positions or to carry out certain activity for the term up to three years».

Theme 17. Auditor standards

Lecture 20

Auditor standards formulate the uniform base requests, advancing specifications to the quality and reliability of audit and supplying a certain level of assurance in auditor check results at observance of these requests. They establish the uniform requests to audition procedure, auditor report and the auditor.

Auditor standards are the basis for the proof in court of quality of audit realisation and definition of a measure of auditors' responsibility.

Standards establish a global approach to audit realisation, scale of auditor check, kinds of auditors' reports, audit methodology, and the base principles for all the representatives of this trade, irrespective of conditions of the audit. The auditor, who deviates from the standards in practice, should be ready to explain the reasons.

With development of transnational corporations, integration and transformation of auditing firms into large international groups there was a necessity of unification of audit internationally. Problems in the field of audit are practically identical all over the world; therefore, the professional organisations of any country solving the same problems of audit.

There are three groups of standards:

- international;
- national;
- internal.

The international standards of audit act at any realisation of independent audit and can be applied by the auditors in the process of fulfilment of accompanying activity if necessary. However, these standards do not prevail over the local establishments, regulating audit and rendering of other related services in the field of the financial information.

National standards of audit exist in each country taking into consideration the specificity of book-keeping and drawing up of the reporting, economic development, economy regulation etc.

National standards of audit in Ukraine were formed on the basis of the international auditor standards. Since 2006, the international standards are used in Ukraine as the notional standards.

Internal standards of audit supply the uniform approach to auditor check at the given auditing firm.

Internal standards should not contradict the national standards (if audit is conducted under the national standards) and the international standards (if audit is conducted under the international standards).

The large auditing firms have the special departments on the bookkeeping and audit methodology, whose main problem is the working out of internal methods of preliminary expert examination of a state of affairs of the client and the conclusion of agreements, realisations of auditor check as a whole and separate accounts and operations of the client, preparation of an audit report and its registration.

Internal standards are individual, author's in each auditing firm, their contents is the classified information. Internal standards are a set of internal instructions and manuals of significant volume that are constantly corrected with the purposes of perfection and because of change of their application

environment.

Internal standards, as a rule, are detailed elaboration of national and international standards of audit, they "lead up" requests of working standards to level of concrete techniques and concrete instructions to the concrete executors who are carrying out auditor check.

Theme 18. Contractual work

Lecture 21

18.1 The letter of commitment of the auditor organisation about the consent to carry out the audit.

The letter of commitment is directed to an executive office of the economic subject before making contract on realisation of audit in order to avoid wrong understanding of the forthcoming agreement conditions. The economic subject should record in writing the consent with the conditions of audit offered by the auditor organisation. If acknowledgement is received, conditions of the letter of commitment will remain in effect during effective period of a contract on realisation of auditor check. The letter of commitment should be preceded by the official address of the economic subject, about rendering of audit and (or) services accompanying it.

If the purpose and scale of audit are defined between parties in the period contract, the letter of commitment may be not constituted or its contents should contain the supplementary information for the economic subject.

The letter of commitment of the auditor organisation directed to the economic subject, documentary confirms the consent to carry out the audit or accepting the proposal about appointment as the official auditor of this economic subject.

The letter of commitment should contain obligatory instructions:

- about the conditions of auditor check;
- about the obligations of the auditor organisation;
- about the obligations of the economic subject.

According to conditions of auditor check the letter of commitment should contain the following obligatory instructions:

- about the object and purpose of auditor check, in particular about an order of audit of branches and divisions of the economic subject in case of their

availability;

- whether should an audit report about reliability of accounts of the client include the conclusion about reliability of accounts of branches, divisions and affiliated companies:

- about acts and standard documents, that are the basis of the audit;
- about the subsidiary matters, solved during the audit.

Under the obligations of the auditor organisation, the letter of commitment should contain the following obligatory instructions:

- about the form of reporting of the auditor organisation by results of the work;

- about responsibility of the auditor organisation for rendered services;
- about observance of a trade secret by the auditor organisation;
- about the availability of risk of undetection of essential discrepancies or errors in book keeping and the reporting in connection with selective character of applied auditor procedures and imperfection of an internal control system of the economic subject.

Under the obligations of the economic subject, the letter of commitment should contain the following obligatory instructions:

- about responsibility of the economic subject and its executive office for completeness and reliability of the presented documentation of book keeping and accountability;

- about maintenance of free access to basic documents and account ledgers, a computer database and any other documentation and the information necessary for realisation of auditor check;

- about a direction by the economic subject under instructions of the auditor organisation of letters to its debtors and creditors about acknowledgement (disconfirmation) by them of the corresponding indebtedness;

- about not rendering pressure upon the auditor organisation in any form for the purpose to change its opinion on reliability of the economic subject accounts;

- the auditor organisation at its own discretion or according to wishes of the economic subject can also include in the text of the letter of commitment:

- the general data on services rendered by the auditor organisation, qualifications of staff, biggest clients, membership in both domestic and

international auditor organisations and unions;

- the approximate planned schedule of audit realisation and structure of directed group of auditors;
- general characteristic of applied methods of check realisation;
- audit repayment terms;
- the offer about the use of services of other auditors (residents and non-residents), independent experts in those aspects of activity of the checked organisation that the auditor organisation and the economic subject will consider necessary;
- the consent of the economic subject to use the results of the previous auditor organisation;
- the description of the major limitations of liability of the auditor organisation;
- recommendations about the audit report use as required;
- the offer on the further development of contractual relations between the auditor organisation and the economic subject.

Theme 18. Contractual work

Lecture 22

18.2 Understanding of activity of the economic subject

Prior to the beginning of audit realisation or rendering of related services the auditor organisation should familiarise with the activity of the economic subject to identify and correctly evaluate events, operations, used methods of accounting that can render a significant influence on reliability of accountability, course of check realisation or conclusions of the audit report.

Spheres of the clients activity, essential to the auditor organisation at all stages of audit realisation are:

- basic (operational) activity;
- investment activity;
- other operations, including non-trade.

The factors influencing financial and economic activity of the economic subject may be divided by external (macroeconomic and branch) and internal, defining the activity of the economic subject.

When conducting repeated auditor checks of the economic subject the auditor organisation can modify and overestimate the information collected earlier.

The basic methods of getting information about the activity of the economic subject are:

- studying macroeconomic conditions of activity of the checked economic subject (for example, national economic policy, a system of taxation and customs supervision, an establishment of limits and quotas);
- the analysis of the regional features influencing activity of the economic subject (for example, a geographical position, economic and tax conditions of the region);
- the accounting of branch features of a clients business;
- acquaintance with the organisation and technology of manufacturing;
- collection of information about the staff of the economic subject, range of the manufactured production, applied methods of book-keeping (the form, an accounting policy, automation degree);
- collection of information about the ownership capital structure, the analysis of placing and stock quotations;
- collection of information about organizational and manufacturing structures; conducted marketing policy; main suppliers and buyers;
- the analysis of activity of the economic subject on a capital market (for example, issue of bills, operations with finance bills, share purchase and stock trading);
- the accounting of availability and mutual relations with branches and affiliated companies and methods of financial accountability consolidation, order of profits allocation;
- collection of information about legal and financial liabilities of the economic subject (is significant at a planning stage to define the level of significance and calculation of intraeconomic risk);
- acquaintance with the organisation of the internal control system.

When revealing the aspects of activity of the economic subject, which require special knowledge, the auditor can invite the expert.

To receive a deeper knowledge about the activity of the economic subject the auditor can use the following sources:

- official publications in legal editions, professional, branch and regional journals and monographies;
- statistical data, official reports of economic subjects, bank statements;
- standard acts and laws regulating activity of the checked economic subject;
- results of visiting of special seminars, conferences, other similar actions;
- explanations and acknowledgements received from the staff of the checked economic subject, conversation with the internal auditor and other competent persons;
- inquiries to third persons;
- consultations with the auditor who conducted the audit during the previous periods;
- founding documents, protocols of meetings of board of directors and shareholders, contracts and agreements, accounts of the last periods, plans and budgets, regulation about the accounts department, accounting policy, document circulation; the work plan for accounts and internal transaction; the schemes of organizational and manufacturing structures;
- inspection of workshops, warehouses and services of the checked economic subject, and questioning of the staff that is not directly connected with the sphere of the accounting;
- results of realisation of analytical procedures;
- fulfilment of the unusual economic operations, which order of registration is ambiguously treated by the current legislation;
- identification of branches and structural divisions allocated for separate balance, economic operations, methods of recording and the taxation in them;
- results of work with the involved specialists-experts;
- acquaintance with a shareholder register;
- use of the knowledge, which has been accumulated during the previous work of the auditor;
- materials of tax checks and litigations.

Before and during the realisation of the auditor check all procedures made and the information received are reflected in working papers of the auditor.

Theme 18. Contractual work

Lecture 23

18.3 The contract in auditor activity

Auditors use in their activity different types of contracts: for realisation of auditor check, subscriber's service, consulting-information service etc.

The auditor check contract is the official document regulating the mutual relations between the auditor organisation and the economic subject. As well as other contracts of entrepreneurial activity, the audit realisation contract legally reflects and registers the adjusted interests of the parties-participants. However the contract on audit realisation essentially differs from other contracts.

After familiarization with the activity of the economic subject and decision about the possibility of auditor services rendering, the stage of contract preparation begins: definition of labour input, cost and terms of audit realisation, requirement for attraction of advisers and experts, etc.

The contract can be set up for a long term. Basic and additional auditor services that are not forbidden by the legislation may be a subject of such contract simultaneously.

If the contract is not accompanied by the letter of commitment, the text of the contract should contain the conditions of the future cooperation, the rights and responsibilities of the parties described in detail.

The contract is drawn according to the civil code requests.

The text of the contract should always contain the following items:

- a subject of the contract about the auditor services rendering;
- conditions of auditor services rendering;
- the rights and responsibilities of the auditor organisation and the economic subject;
- liabilities of the parties and the order of disputes resolution;
- cost of auditor services and a payment order.

At the same time, the text of the contract can contain the other important items.

An item «Condition of rendering of auditor services» should include:

- purpose and object of services rendering;
- terms and stages of auditor services rendering;

- references to normative acts and standard documents.

The item « Rights and responsibilities of the auditor organisation» provides:

- strict observance of the Ukrainian legislation requests;
- independent definition of forms and methods of auditor check;
- check of any documentation of the economic subject necessary for realisation of audit and reception of explanations and additional data on the questions that appeared during the check;
- check of the necessary documentation of the economic subject;
- access to system of computer data processing;
- the involvement of the adviser or the expert if it is necessary;
- the order of the working documentation use;
- necessity of attraction of additional auditors into the check;
- the qualified realisation of auditor check and a keeping of confidentiality and trade secret;
- maintenance of safety of the documents received and constituted during the auditor check;
- reception under the letter of inquiry of the information needed for realisation of the auditor check from third persons;
- refusal of auditor check realisation in case of non-presentation by the

The item «Rights and responsibilities of the economic subject» provides:

- reception of the information about the requests of the legislation, concerning realisation of audit;
- creation to the auditor of conditions for duly and complete realisation of auditor check;
- operative removal of the infringements revealed by the auditor check;
- absence of actions with the purpose to limit a circle of auditor check questions;
- absence of pressure upon the auditor organisation in any form for the purpose to change its opinion.

The item «Responsibility of the parties and the order of the disputes settlement» provides:

- completeness and reliability of the documentation presented for audit, functioning of internal control system;

- quality of auditor services rendering according to the legislation of Ukraine;
- responsibility for partial or complete non-compliance with the contract obligations;
- possibility and necessity of solving of the arisen disputes by negotiation or judicially.

The text of the contract about the rendering of auditor services according to wishes of the parties may contain:

- additional items from the letter of commitment;
- level of significance of the possible errors, established in the process of audit realisation;
- financial sanctions for unpaid amount of auditor services;
- terms of payment of the additional charges that have arisen during the check.

In the process of the contract providing the rendering of services accompanying audit drawing up, it is reasonable to provide the section specifying the contents of the auditor task.

Changes or supplementary contracts are attach to the contract and are its integral part.

It is also possible to indicate the sum of the significant error in the reporting, the importance of discrepancies that need correction, the list of the data constituting a trade secret of the client, an order of offset of time spent for audit, the value of responsibility of the auditing firm.

Theme 19. Planning of auditor check

Lecture 24

19.1 Stages of accountability audit.

1. Information gathering. At first it is necessary to collect (and in case of repeated audit – to update) and to document the information on the client and to identify, how this information can affect the plan of auditor check. This stage includes also studying of business of the client and a conjuncture of the branch. Two factors are thus considered: first, the sufficient volume of authentic data for fulfilment of problems of audit should be collected, and secondly, expenses for

the gathering of these data should be minimised. The first factor, certainly, is more important, however it is impossible to underestimate the second, as it supplies competitiveness and profitability of an auditing firm.

2. Planning. It is necessary to evaluate a risk that the financial report can contain essential errors in records, and on the basis of this estimation to develop the effective and rational plan of auditor check.

3. Audit realisation. At this stage, it is necessary for auditor to collect, register and evaluate certain quantity of the facts to prove the data containing in segregated accounts and in the financial report as a whole. Results of checks of the internal control structure of the client are a basis for risk assessment that the rests under accounts can contain essential errors and in the process of gathering and evaluation of evidence concerning the rests in accounts there can be problems in structure of the internal control of the client.

4. Presentation of a report. At the final stage the auditor have to formulate and write an auditor's conclusion and to notify the client about defects in structure of his internal control.

19.2 Audit planning

Purpose and principles of audit planning. The auditor organisation should start to plan the audit before writing of the letter of commitment and making contract with the economic subject about audit realisation.

Planning, being the initial stage of realisation of audit, includes working out by the auditor organisation of a general plan of audit with evaluation of the expected volume, schedules and terms of audit realisation, and working out of the auditor program advancing volume, kinds and sequence of realisation of the auditor procedures necessary for formation by the auditor organisation of objective and reasonable opinion about the accountability of the organisation.

Planning of audit includes the following basic stages:

- preliminary planning of audit;
- preparation and drawing up of a general plan of audit;
- preparation and drawing up of the audit program.

The contents of preliminary planning of audit. Principles of preparation of a general plan and program of the audit. Beginning working out of a general plan and the audit program, the auditor organisation should use preliminary knowledge about the economic subject.

In the course of preparation of general plan and program of the audit the auditor organisation evaluates an effectiveness of the internal control system (ICS) of the economic subject and evaluates its risk (control risk). ICS can be considered effective if it warns about unreliable information occurrence, and reveals unreliable information in time.

In the process of preparation of general plan and program of audit the auditor organisation should establish acceptable level of significance and auditor risk, allowing considering the accountability reliable.

Results of procedures conducted by the auditor organisation in the process of general plan and program preparation should be documented in details as they are the basis for planning of audit and can be used during the whole process of audit.

Preparation and drawing up of a general plan of audit. The general plan should serve as a manual at realisation of the audit program. In the general plan the auditor organisation should provide terms of audit realisation and develop a chart of audit realisation, preparation of report and auditor's conclusion.

In the general plan the auditor organisation advances a method of audit realisation on the basis of results of the preliminary analysis, estimation of reliability of internal control system and estimation of audit risks.

Preparation and drawing up of the audit program. The audit program is the development of a general plan of audit and represents the detailed list of the contents of the auditor procedures necessary for practical realisation of the audit plan. The program serves as the detailed instruction for assistants to the auditor, for chiefs of the auditor organisation and auditor group - and as a control device of work quality simultaneously.

The auditor program should be developed in the form of the program of tests of control measures and in the form of the program of auditor procedures in essence.

The program of tests of control measures is a list of set of the actions intended for information gathering about functioning of an internal control system and the accounting. Tests of control measures help to reveal essential defects of control measures of the economic subject.

Auditor procedures in essence is a detailed revision of correct reflexion in book keeping of turn-overs and balances under an accounts. The program of auditor procedures in essence represents the list of actions of the auditor for such

detailed concrete checks. For procedures in essence the auditor should advance, which sections of book keeping he is going to check, and to develop the audit program on each section of book keeping.

Conclusions of the auditor on each section of the auditor program, documentary reflected in working papers, are the actual material for drawing up of the auditor report and auditor's conclusion, and the basis for formation of objective opinion of the auditor about the accountability of the economic subject.

After the completion of process of planning of audit the general plan and the audit program should be issued documentary.

Theme 20. Auditor risk

Lecture 25

The auditor risk is an enterprise risk of the auditor (auditing firm), it means probability of availability in accounts of the economic subject of not revealed essential errors and (or) distortions after acknowledgement of its reliability or probability of a recognition of essential distortions in it while actually such distortions are absent.

In the process of audit realisation, the auditor should take necessary measures to lower auditor risk to a reasonable minimum level.

The auditor risk consists of three components: intraeconomic risk; risk of means of control; risk of undetection.

The auditor is obliged to study these risks during work, to evaluate them and to document results of estimation.

The intraeconomic risk is understood as probability of occurrence of essential distortions subjectively advanced by the auditor in the given account, balance figure, uniform group of economic operations, reporting of the economic subject as a whole before such distortions will be revealed by means of an internal control system or under condition of an assumption of absence of such means.

The risk of means of control (control risk) is understood as subjectively advanced by the auditor probability that existing at the enterprise and regularly applied means of accounting system and an internal control system will not find out and correct in time the infringements that are essential separately or in aggregate, and (or) to interfere with occurrence of such infringements.

The risk of means of control characterises degree of reliability of the

accounting system and internal control system of the economic subject.

The auditor tests means of control in all cases, except when it evaluates risk of means of control as high. The higher the degree of dependence of the auditor on the specific means of control, the more carefully he should check their reliability and efficiency.

The *risk of undetection* is understood as subjectively advanced by the auditor probability that applied by the auditor during the check auditor procedures will not allow to find out the real-life infringements having essential character separately or in aggregate.

The risk of undetection is an indicator of efficiency and quality of work of the auditor and depends on an order of realisation of concrete check, and from the qualification of auditors and degree of their previous acquaintance to the activity of the checked economic subject.

In a case if the auditor wishes to lower risk of undetection, he should modify applied auditor procedures by increasing their quantity and (or) change of their essence; to increase expenses of time for check; to increase volume of audit samples.

There are two basic methods of auditor risk valuation, estimated (intuitive) and quantitative.

The estimated (intuitive) method, means that auditors, proceeding from own experience and knowledge of the client, advance auditor risk on the basis of the reporting in whole or separate groups of operations as high, probable and improbable and use this estimation in audit planning.

The quantitative method assumes statement of amount of numerous models of auditor risk. We will consider one of them (the most simple)

$$AR = OR \cdot CR \cdot RU \quad (20.1)$$

where AR – auditor risk; OR – own risk; CR – control risk (risk of means of control); RU – risk of undetection (procedural risk).

Previously established value of auditor risk reflects propensity of the auditor to risk, his idea about the economic environment in which he acts. If, for example, probability of that the client can file an action at law against the auditor or undertake other actions which can essentially affect his reputation, is small enough, previously established size of auditor risk can be high.

As it was already spoken, the auditor risk is enterprise risk of auditing

firm; therefore, its size reflects firm position in the market of auditor services and degree of competition of the market, that it is also necessary to consider.

It is possible to apply four levels of risk of undetection:

- the minimum risk - in case when the internal control system of the client has been previously evaluated by the auditing firm as effective and the auditor rely upon it, placing emphasis on check of control, instead of on detailed procedures;

- the low risk – in a case when the internal control system of the client has been evaluated by the auditing firm as effective, but the auditor do not rely upon it completely, planning detailed procedures, sufficient for detection of possible significant errors;

- average risk – in a case when the internal control system of the client has been evaluated by the auditor as inefficient and the auditor plans detailed procedures;

- the high risk – in case of absence of the internal control system of the client practically continuous check is planned.

For decrease of auditor risk it is necessary to be guided by the rule: than more elements auditor checks the intended for complete studying, and the more convincing is the analysis, and the sample volume will be smaller.

Theme 21. The general methodical approaches to auditor check

Lecture 26

21.1 Significance in audit

During realisation of checks the auditor organisations should not establish reliability of the accountability with absolute accuracy, but are obliged to establish its reliability in all essential aspects.

Reliability of accountability in all essential aspects is understood as the degree of accuracy of accountability indicators which gives to its qualified user ability to make correct conclusions and economic decisions on its basis.

Significance level is understood as limiting significance of an error in the accountability since which the qualified user of this accountability with the big degree of probability cannot make correct conclusions and economic decisions on its basis.

The auditor organisations are obliged to establish system of base indicators

and the order of level of significance definition, which should be issued documentary and be applied on a constant basis.

Many auditors consider that the most objective measuring instrument of significance is the profit before taxes. For the economic subjects that have some problems with liquidity or solvency, negotiable assets or authorized capital can be taken as a critical component. In other cases, *it can be sales proceeds of the goods, works, and services*.

Usually significance settles up as value from an interval 5 – 10 % from the chosen critical component.

In the process of significance estimation the following aims are pursued:

- definition of acceptable level of distortions in the financial accounting;
- estimation of volume of forthcoming audit;
- estimation of consequences of the revealed distortions.

When defining the acceptable level of distortions in the financial accounting the auditors are guided by the following: if the revealed distortions are equal or exceed the level of significance, there are all reasons to believe, that the financial accounting of the economic subject is doubtful; if the revealed distortions do not exceed the level of significance, there are all reasons to believe, that the financial accounting is reliable and the given distortions do not influence the reliability of this accountability. In all cases the sum of all revealed distortions is considered.

All distortions revealed during the audit that exceed the level of significance, should be presented in the letter-recommendation to the management of the economic subject in the form of corrective accounting transactions. The estimation of consequences of the revealed distortions is expressed in valuation, how much the financial accounting of the economic subject will be changed at entering into it of corrective accounting transactions.

21.2 Studying and estimation of accounting system and internal control system of the economic subject during the audit.

The auditor during auditor check is obliged to be convinced in a sufficient measure that the accounting system reliably reflects the economic part of the checked economic subject. In case if the auditor is convinced, that he can use data of corresponding control measures, he has an opportunity to carry out auditor procedures in less details and (or) more selective, and also to make

modifications to the essence of the applied auditor procedures and prospective expenses of time for their realisation.

Serious defects of the accounting system and the internal control, revealed during the auditor check, and the recommendations about their removal the auditor should present in the form of the written report to the management of the checked economic subject.

The requests presented to studying and estimation of the accounting system.

Acquaintance with the accounting system includes studying, analysis and estimation of data about the following parts of economic activities of the checked economic subject:

- accounting policy and the main principles of book-keeping;
- organizational structure of the division responsible for book-keeping and preparation of accountability;
- distribution of responsibilities and authorities between the workers who take part in the record-keeping and preparation of the accountability;
- the organisation of preparation, turn-over and storage of the documents reflecting economic operations;
- order of reflexion of economic operations in registers of book keeping, the form and methods of generalisation of the data of such registers;
- order of preparation of periodic accountability on the basis of accounting figures;
- role and place of computer aids in record-keeping and accountability preparation;
- critical areas of the accounting where the risk of errors or accounts distortions occurrence is especially high;
- the control measures provided in separate areas of an accounting system.

During auditor check it is necessary to familiarise with internal documents of the checked economic subject, concerning the organisation and statement of book-keeping, and to advance, in what measure the real condition mismatches positions of the given documents. In necessary cases for such verification it is recommended to trace movement of the separate sums in the account from basic documents before their entering into accounting documents.

Theme 21. The general methodical approaches to auditor check

Lecture 27

21.2 Studying and estimation of accounting and internal control systems in the process of audit realisation

The requests presented to studying and estimation of the internal control system. The internal control system of the economic subject should include a proper accounting system, the control environment and separate control measures.

The control environment is an awareness and practical actions of the management of the economic subject, directed on the establishment and maintenance of the internal control system. The management of the economic subject bears responsibility for development and practical implementation of the ICS. Management should be convinced, that the internal control system answers the size and specificity of activity of the economic subject, functioned regularly and effectively.

The effective organizational structure of the economic subject implies reasonable division of responsibility and authorities among employees should interfere whenever possible with attempts of separate persons to infringe the requests of the control and to supply division of incompatible functions. Functions of the given employee are considered incompatible if their concentration at one person can promote fulfilment of casual or deliberate errors and infringements and to hinder detection of such errors and infringements.

Usually the following functions come under distribution among various persons:

- direct access to assets of the economic subject;
- the permission to realise operations with assets;
- direct realisation of economic operations;
- reflexion of economic operations in book keeping.

21.3 Auditor samples

Essence and methods. Time of auditor check is limited, so the auditor has no ability to check up all operations and documents. Continuous checks are conducted, as a rule, only in the most important spheres, and the control over a basic mass of operations is carried out selectively, that accelerates the audit and

makes it cheaper. The main principle of auditor sample is already used in audit planning: a choice of “painful points” in the accounting of the client.

Kinds of samples. The auditor organisation can use one of following methods of sampling:

Random sampling (it can be conducted under the table of random numbers);

Regular selection (elements are selected over a constant interval, starting with a casually chosen number);

The combined selection (combination of various methods of casual and regular selection). The auditor organisation can check up correctness of reflexion in book keeping of balances and operations under accounts or to check the control system measures continuously, if the number of elements of checked set is so small, that the application of statistical methods is wrongful or if the application of auditor sample is less effective, than the realisation of continuous check.

The auditor organisation should always reflect in the working documentation of the auditor all stages of auditor sample realisation and the analysis of its results.

21.4 Methods of auditor check

The audit method is a set of methods that help to evaluate the condition of studied objects. Diverse procedures can be consolidated in three groups: definition of a real condition of objects, analysis and estimation.

Procedures of the first group are survey, recalculation, measurement, that allow defining a quantitative condition of object; the laboratory analysis, which purpose is a definition of a qualitative condition of object; inquiry; documentary check.

For comparison of separate indicators of the accountability the analytical procedures (procedures of the second group) are used.

At the stage of planning the analysis helps the auditor to plan the character, time and volume of other auditor procedures; at the stage of realisation of essential checks - to process the significant detailed information (for example if the company set of accounts includes 20 accounts of expenses it is easier for the auditor to conclude monthly tendencies of these expenses changes, than to check selectively some sums, to find out atypical expenses or accounting transactions),

at the final stage - to make overall review of the financial information.

Procedures of the third group is an estimation of past, present and future condition of objects of audit, logical end of comparison process. The condition of resources, expediency and legitimacy of economic operations, reliability of the economic information, concerning events and not reflected in book keeping are evaluated. The method of registration estimation is usually used to define the values of reserves under warranty packages, reserves on doubtful debts, cost of securities.

Besides the indicated procedures, the auditor can involve external in relation to check methodical positions borrowed from other sciences:

- mathematical theories (formal samples, regression and a cluster analysis);
- economic theories (value of money in time, the theory of capital estimation);
- theories of book keeping and finances (the theory of percent, the financial analysis and forecasting of bankruptcies);
- information and communications theories (ability of the auditor to come into contact to third persons, conclusion drawing up);
- information technologies (expert systems, computer systems, technology of databases);
- management (planning and the control, organizational theories and motivation theories);
- matters of law and the taxation.

Auditors independently define procedures and methods of work. All methods of audit can be divided into two groups: methods of the organisation of audit as a whole, and specific methods of check of operations, balances of accounts, etc.

Theme 21. The general methodical approaches to auditor check.

Lecture 28.

21.5 Methods of operations, accounts and documents checks.

Check of arithmetic accounts of the client (recalculation).

Recalculation is a check of arithmetic accuracy of sources of documents

and account entries and fulfilment of independent counts; as a rule, it is carried out selectively.

Inventory. Inventory allows receiving exact information about the availability of property of the economic subject and the rough information on a condition and cost of such property. Inventory is applied to the property and financial obligations of the client.

Check of observance of separate economic operations account rules.

This method allows the auditor organisation to carry out the control over the accounting works executed by the accounts department.

Acknowledgement. For reception of the information on reliability of the rests on the accounts of money resources, accounts receivable and accounts payable, the auditor organisation should receive acknowledgement in writing from the independent (third) party.

Interrogation of staff, management of the economic subject and independent (third) party. It can be conducted at all stages of auditor check. Results of oral interrogations should be written down in the form of the protocol or the short abstract in which the surname, name, patronymic of the person who has been interrogated and a surname of auditor who conducted interrogation, should be necessarily indicated. For realisation of typical interrogations the auditor organisation can prepare forms with lists of questions. In these forms answers of the interrogated persons can be marked.

Inspection of documents. The documentary information can be internal, external, or internal and external simultaneously. The documents prepared and processed inside the economic subject, are internal.

Inspection of documents supposes that the auditor should be convinced of a reliability of the certain document. For this purpose, it is recommended to choose certain records in bookkeeping and track operation reflexion in the accounting up to that basic document which should confirm a reality and expediency of this operation fulfilment.

Kinds of inspection of documents:

- formal check (correctness of filling of all requisites; availability of not stipulated corrections, erasures, additions in the text and figures; authenticity of signatures of official and materially liable persons);
- arithmetic check (correctness of counts in documents, i.e. correctness of the shown results in basic documents, registers and forms of accounting);

– inspection of documents in essence (legitimacy and expediency of operations; correctness of reference on accounts and articles).

Tracing. Tracing is a procedure in course of which the auditor checks some basic documents, reflexion of the given basic documents in registers of synthetic and analytical accounting, defines the final correspondence of accounts and is convinced that corresponding economic operations are correctly (or wrongly) reflected in book keeping. Tracing allows studying atypical articles and events reflected in documents of the client.

Analytical procedures. Analytical procedures is the analysis and estimation of the received information, research of the major financial and economic indicators of the checked economic subject for the purpose of revealing of the facts of economic activities unusual and incorrectly reflected in book keeping, and also defining of the reasons of such errors and distortions.

Preparation of alternative balance. To receive the proofs about a reality and completeness of reflexion in the accounting of finished products, works performed or rendered services the auditor organisation can compose a balance of the spent raw and basic materials by norms per unit of production and actual cost of production (fulfilment of works, rendering of services).

21.6 Auditor proofs.

Any information allowing the auditor to form the opinion on the reliability of the accounting data or reporting as a whole can be used as proofs in audit.

Kinds of auditor proofs.

Internal auditor proofs is the information received from the economic subject in a written or oral form.

External auditor proofs is the information received from the third person in written form (usually under the letter of inquiry of the auditor organisation).

The mixed auditor proofs is the information received from the economic subject in a written or oral form and confirmed by the third person in written form.

The most valuable and reliable for the auditor organisation are the *external auditor proofs*, then the mixed and internal proofs.

The proofs received by the auditor organisation itself, are usually more reliable, than the proofs granted by the economic subject.

Proofs in the form of documents and affidavits are usually more reliable,

than oral. The collected proofs are reflected by the auditor in his working papers.

Sources of auditor proofs:

- basic documents of the economic subject and third persons;
- registers of book keeping of the economic subject;
- results of the analysis of financial and economic activity of the economic subject;
- oral statements of employees of the economic subject and third persons;
- comparison of one documents of the economic subject to others, and also comparison of documents of the economic subject to documents of third persons;
- results of inventory of property of the economic subject, conducted by its employees;
- accountability.

Control Questions for the discipline “Accounting and Audit”

1. Definition of Accounting.
2. Types of Accounting.
3. Principles of Accounting.
4. Structure of balance sheet, its main formula.
5. Principle of dual recording.
6. Synthetic and analytical accounts, active and passive accounts.
7. Classes of accounts in Card of accounts in general.
8. Active accounts.
9. Passive accounts.
10. Accounts of incomes and costs.
11. Off-balance accounts.
12. Components of accounting process, primary registration, document circulation.
13. Kinds of accounting registers.
14. Financial accountability. Structure of profit and loss report.
15. Documentation, Classification of documents in accounting.
16. Forms of accounting.
17. Accounts #10, 12, 13, 20, 22, 23, 26, 27, 28, 30, 31, 36, 37, 40, 44, 50,

60, 63, 64, 65, 66, 70, 79, 80-85, 90-95, 01, 07.

18. Definitions for the audit, auditor, auditors activity, adjacent works and services for audit.

19. Purposes of financial accountability audit and its problems.

20. Principles of audit realization.

21. Kinds of audit.

22. The services accompanying audit. Kinds of services.

23. Services compatible and incompatible with obligatory financial accountability audit. The rights and responsibilities of the auditor during the auditors check.

25. The rights and responsibilities of the managers and other staff of the checked organization during the auditors check.

26. Regulation of auditing activity.

27. Liability of auditors and auditing firms (kinds and details).

28. Auditors standards. Kinds of standards.

29. The letter of commitment of the auditor organization, its main sections.

30. The contract in auditor activity, its obligatory and optional sections.

31. The basic methods of getting information about the activity of the economic subject.

32. Advanced sources of information about the activity of the client.

33. Stages of audit of financial accountability.

34. Audit planning.

35. Auditor risk. Kinds of risk. Estimation and calculation of risk.

36. Significance in audit.

37. The requests presented to studying and estimation of the accounting system of the client.

38. The requests presented to studying and estimation of the internal control system of the client.

39. Auditor sample. Kinds of samples.

40. Methods of auditor check.

41. Auditor proofs. Kinds of proofs.

Recommended reading

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