

## CURRENT LIABILITIES AS AN INTERNAL CONTROL ITEM IN A COMPANY USING COMPUTER TECHNOLOGIES

*The article examines stages of the company internal control; discusses the notion of internal control system, its items, entities and control procedures; defines current liabilities internal control in a company. It investigates the organization of current liabilities internal control, using computer technologies; discusses current liabilities synthetic and analytical accounting, using 1C: Accounting 8.0 software, identifies the benefits of computer software use in the company.*

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### Introduction

Company operates efficiently only with well organized internal control system that provides timely risk identification and analysis, assets preservation, compliance with the laws and internal policies, promptness and accounting quality, reliability of financial and management reporting, fraud prevention and error detection, efficient use of resources and business doing, improvement of company organization and control measures.

Company internal control becomes particularly important with the use of computer technologies. Using the computer accounting system, it provides reliability and correctness of accounting information.

An internal control issue, identification of its items, entities was studied by such scientists as V.V. Burtsev, F.F. Butynets, B.I. Valuyev, T.O. Kamenska, M.D. Korinko, V.S. Levin, A.K. Solodov, I.D. Farion and others. However, nowadays the problem remains completely unresolved, which requires the extensive theoretical and practical development.

### Research results

Today, domestic companies status regarding the internal control system organization is unsatisfactory. Most businesses do not have an internal control department.

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T.O. Kamenska identifies the following objective and subjective factors that contribute to this status:

- 1) in small branches and departments of a company it is difficult to implement duties segregation principle due to a small number of employees;
- 2) problems may arise in the case of collusion: between workers, between employees and external party;
- 3) incompetence and insufficient training of the company's employees;
- 4) high growth of business (could adversely affect the data verification mechanism);
- 5) management subjective judgments (causing inefficient decision making, which can be both malicious and false);
- 6) additional costs on the internal control mechanisms establishment;
- 7) management decisions made in the interests of business, may conflict with policies and procedures adopted by the company, which has a negative impact on the internal control status (Kamenska, 2010).

To establish an efficient internal control system (ICS) the company needs its management's willing to establish this system, as well as mutually agreed, joint work of the managers and owners.

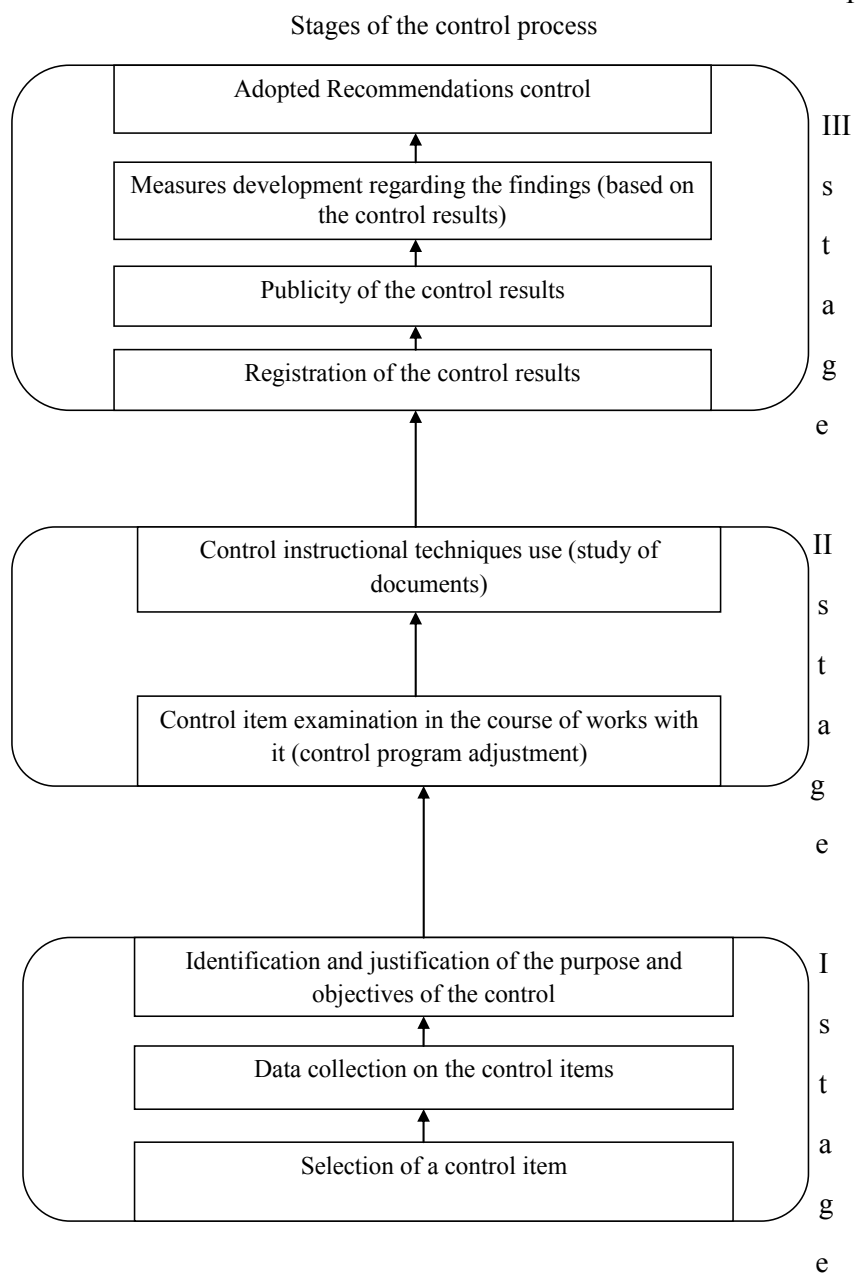
ICS generally means all the internal rules and control procedures implemented by the company's management to achieve the goal - providing (to the extent possible) stable and efficient operation of an enterprise, compliance with domestic economic policy, conservation and management of the company's assets, prevention and detection of fraud, errors, accuracy and completeness of accounting records and financial information timely preparation (National Auditing Standards, 1999).

I.D. Farion defines the control organization as a process that is a set of control stages that are repeated and definitely organized in space and time (fig. 1) (Farion, Perevoza, 2007).

The degree of an organization's internal control complexity depends on a company organizational structure, number of managing staff and other employees, number of separate units and units subordinate to each other, centralized accounting etc.

Company internal control is a process that must be carried out by the company's management bodies (all the levels) and employees, using control procedures and measures according to the goals set.

Figure 1



The main goal of creating a properly organized internal control system at the enterprise is:

- provision of internal regulatory documentation;
- preservation of assets;
- accurate and complete reflection of business transactions in both accounting and reporting;
- distribution of authority and functions among various units of the enterprise;
- creation of appropriate internal control departments;
- due implementation of adopted recommendations.

An important issue of the company internal control is to identify its entities, items, and control procedures as interrelated ICS components.

Internal control items in the company are:

- representative bodies: the supervisory board, audit committee, the accident investigation committee;
- company management: Chairman of the Board, Vice-Chairman;
- managing staff: managers, chief engineer;
- enterprise special service: internal control service, internal audit service;
- company employees: employees of technical, economic and accounting services.

Control procedures are appropriate methods and guidelines developed by the company regulations and activities of internal control entities on research and study of relevant items to achieve the goals set. Control procedures provide detection and correction of an error that may arise in the implementation of a company financial and economic activity, as well as their implementation prevention.

In the works of national and foreign authors, the issue of the internal control entities definition is examined in two ways. Some believe that control items coincide with the accounting items (internal control of fixed assets, liabilities, reserves, payments, financial performance, etc.). (Valuev B.I., 1987; Levin V.S., 1990; Solodov A.K., 1993) The internal control items covered by accounting shall mean: objects, business processes, phenomena, actions of the accountable persons at which accounting functions are aimed.

Others believe that the scope of internal control extends and is not limited to the accounting tasks. We shall agree with them, because the company's activities are the process which is carried out under condition of relationship between the producers. Therefore, internal control items as management functions shall mean: objects, business processes, events, actions of accountable persons, at which actions of the inspectors are aimed.

V.V. Burtsev noted that the control items are a part of the organization management system that accepts the controlling influence. (Burtsev V.V., 2000)

According to T.O. Kamenska, the internal control items are a set of elements companies that fall within the control zone, namely:

- Economic and financial activities of the company, its subsidiaries, affiliates,
- Activities of departments and divisions;
- Some products, operations and transactions of the company;
- Financial and information flows;
- Activities of individual managers and ordinary employees of the company (Kamenska, 2010).

According to M.D. Korinko, the company's management shall organize and support the appropriate level of the internal control system that would have been sufficient so that:

- the financial statements included everything that should be included in it, properly identified, classified, assessed and registered;
- the financial statements gave accurate and unbiased information to present the characteristics of the company as a whole;
- software that control the functioning of the accounting system, including the formation of source documents, analysis and distribution of accounts could not be falsified in any way;
- a company's funds could be misappropriated or inefficiently used;
- all deviations from the budgets were timely identified, analyzed, and the persons who caused deviations were held liable;
- reporting for making management decisions was promptly provided to persons authorized to make management decisions for its future use (Korinko, 2006).

In accordance with these objectives on organization of internal control in the company, the relationship of internal control and with accounting and management accounting is seen. Items of control covered by accounting are consistent with the items of management accounting management because accounting is both the means of control and its item. Thus, the internal control items are what is to be studied or checked.

We shall consider in more detail the current liabilities in the company as the internal control item. According to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' a liability is a present obligation of a business entity that has arisen from past events and the extinguishment of which is expected to result in the withdrawal of the business entity's resources representing its economic benefits (International accounting standard 37, 2012).

Current liability is an obligation that will be extinguished in the course of the operating cycle of an enterprise or shall be distinguished within twelve months as of the balance statement date.

Items of internal control for current liabilities in the company shall mean the elements of the company's accounting policies (list of source current liabilities accounting documents, a list of persons authorized to sign current liabilities accounting documents, tax accounting procedure and the procedure for write-off of uncollectible accounts receivable, etc.); regulatory framework of the documentary reflection of current liabilities; business operations of current liabilities accounting; records in the source documents, accounting registers and financial statements; settlements for transactions with current obligations; types of evaluation of current liabilities of other companies.

We have discussed more specifically the purpose and objectives of current liabilities internal control issue, as well as sources of information on internal control of transactions with current liabilities in the company in previous works (Travinska, 2010).

Each task objective of current liabilities internal control is closely related to the accounting process procedures, accounting areas (structural units). In our case, a structural unit are current liabilities of the company (table 1).

Table 1

Current liabilities internal control items			
No.	Control items	Executors	Responsibilities
1.	Company's accounting policy	Chief Accountant	Checking the availability of the list of source current liabilities accounting documents, the list of persons, authorized to sign documents on current liabilities accounting, tax accounting procedure and the procedure for writing off uncollectible accounts payable, etc.
2.	Regulatory framework of the documentary reflection of current liabilities	Chief Accountant	Checking the reflection of the current liabilities in the financial statements in accordance with applicable law
3.	Economic transactions on current liabilities accounting	Current Liabilities Accountant	Checking the correct accounting of transactions with current liabilities, their reflection on respective accounts, compliance with double entry system
4.	Entries in the source documents, accounting registers and financial statements	Current Liabilities Accountant	Compliance with the correct entries in the source documents, accounting registers and financial statements
5.	Settlements on transactions with current liabilities	Current Liabilities Accountant	Checking the settlements with counterparties (customers, suppliers)
6.	Situation with payables	Chief Accountant	Verification of data on account balances of Class VI of the Chart of Accounts in the General Ledger, balance sheet, payroll
7.	Evaluation of the company's current liabilities	Current Liabilities Accountant	Correct reflection of one of evaluation types when displayed in the financial statements: historical cost of the liability, current cost of the liability, realizable value and present value.

We shall investigate the organization of current liabilities internal control under by means of its computerization.

Implementation of accounting process in the automated environment influences significantly the methodology and organization of current liabilities accounting and internal control as a whole.

Widespread use of computer equipment in accounting information processing increases control level and offers many advantages, including:

- Reducing the manual labour associated with analytical calculations of indicators and filling out of the accounting forms;
- Improving the accounting organization process and formation of financial statements indicators;
- Improving the quality and efficiency of accountants' work;
- Providing the possibility of analytical accounting;
- Ensuring the timeliness of reported data;
- Strengthening the internal control accuracy, legality, appropriateness of accounting operations without increasing the complexity of accounting;
- Timeliness and quality of financial reporting and the possibility of obtaining various internal reports;
- Internal control of financial and economic activity of the company as a whole.

According to S. Ivakhnenkov (Ivakhnenkov, 2007), the automated information system provides continuous monitoring of the financial instruments as well as current accounting records. This approach is due to the fact that the computer accounting system has its own internal structure and embedded algorithms, imposes on the accountant the accounting rules and workflow schema set by the responsible person and recorded in the system structure. The practical result for the company – reducing the likelihood of errors because of ignorance or a random error of the accountant, or through an intentional damage.

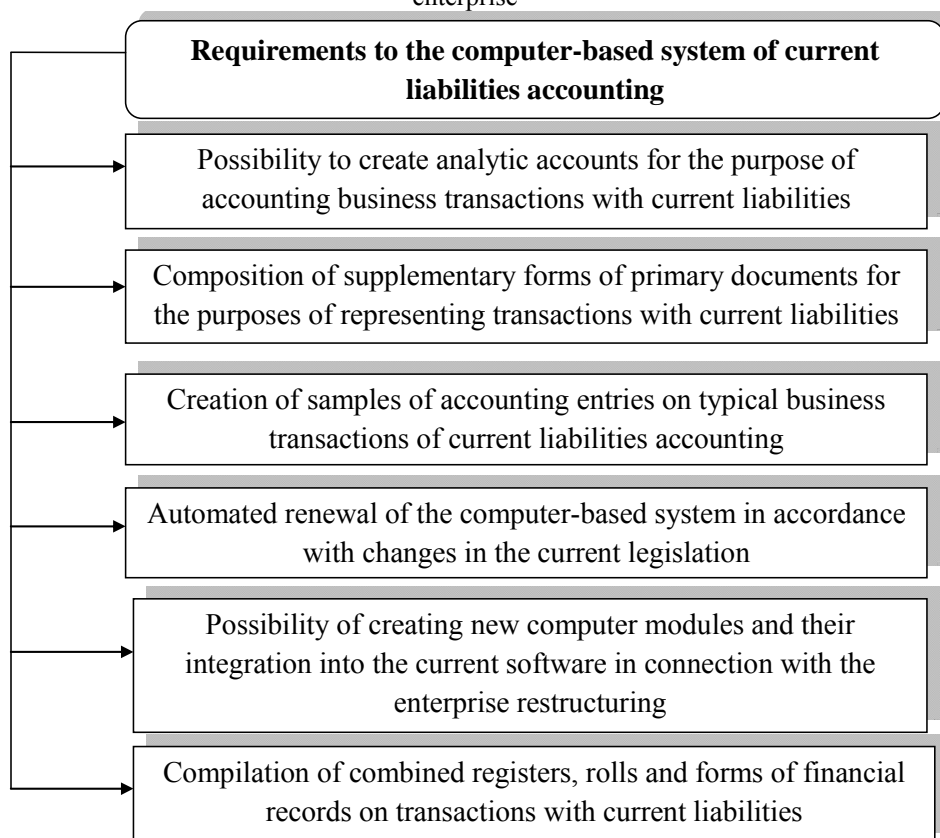
Prof. M. T. Bilukha states that 'new information technologies (NIT) constitute a body of fundamentally new means and methods of accounting and economic data processing, information product (data) transmission, storage, and representation involving minimum losses within the framework of the economic environment the NIT is being developed in' (Bilukha, 2004).

In order to increase the efficiency of financial and business activities of an enterprise one should apply new methods of administration and modern technologies of constructing various information systems as well as to implement a unified automated system of accounting, control, and audit.

The computer-based accounting system suggested by the Information Department of the enterprise is now in need of certain improvements related to constant changes of legislation as well as certain alterations in the activities of the enterprise, the increase in output volumes or service provision. Therefore, in order to acquire accurate up-to-date information

on current liabilities and control them, we set the following requirements to the computer-based accounting system at the enterprise (fig. 2):

Figure 2  
Requirements to the computer-based system of current liabilities accounting at the enterprise



Consequently, the main tasks of a modern computer-based system of accounting and control are:

- 1) timely provision of accurate and complete information required by the user;
- 2) provision of this system with special software aimed at preventing and recognising existing faults and errors;
- 3) possibility to analyse assets and liabilities in order to ensure efficient operation of the enterprise;
- 4) analysis of financial indicators with the prediction of future activities of the enterprise;



- 5) functional extension of the current computer-based system resulting from the enterprise restructuring.

The technological process of processing data on transactions with current liabilities in the context of computer-based accounting has been examined by us in more detail in (Travinska, 2012).

We made a comparative analysis of existing computer programs for accounting on the market today: "ABACUS professional", "Office Tools 400", "Fin Expert 4.1", "SoNet accounting" and other (Travinska, 2012), revealed significant advantages of the program "1C: Accounting 8.0".

We shall consider accounting of economic transactions with current liabilities using configuration "1C: Accounting 8.0" ("Accounting for Ukraine"). This program are developed on the basis of components of the Accounting system 1C:Enterprise and is a comprehensive solution for the automation of various kinds of financial-economic activity of the enterprise. 1C:Enterprise is a software company 1C, intended for automation of activity of the enterprise. Program key functions: accounting of several organizations in a single database; conduct both accounting and tax accounting; management accounting according to the simplified taxation system etc.

Configuration "1C: Accounting 8.0" enables to set up a complex system of analytic accounts for the current liabilities accounting, enter economic transactions regarding the receipt and repayment of various debts types of suppliers, customers, social funds, using templates and documents, and create various forms of internal reporting for management staff.

S. Ivakhnenkov (Ivakhnenkov, 2007) notes that 1C: Accounting 8.0 also enables to make budgetary forecasts (by entering information on future transactions and assessment of their impact on the company). Thus, this software is not only accounting, but also "mini-management" software, designed to provide the necessary information for management decision-making.

Control of accounting personnel actions and accounting system is to verify the proper use of accounts, timeliness and accuracy of accounting records, compliance of synthetic and analytical accounting data with balance sheet data and other forms of reporting (Ivakhnenkov, 2003).

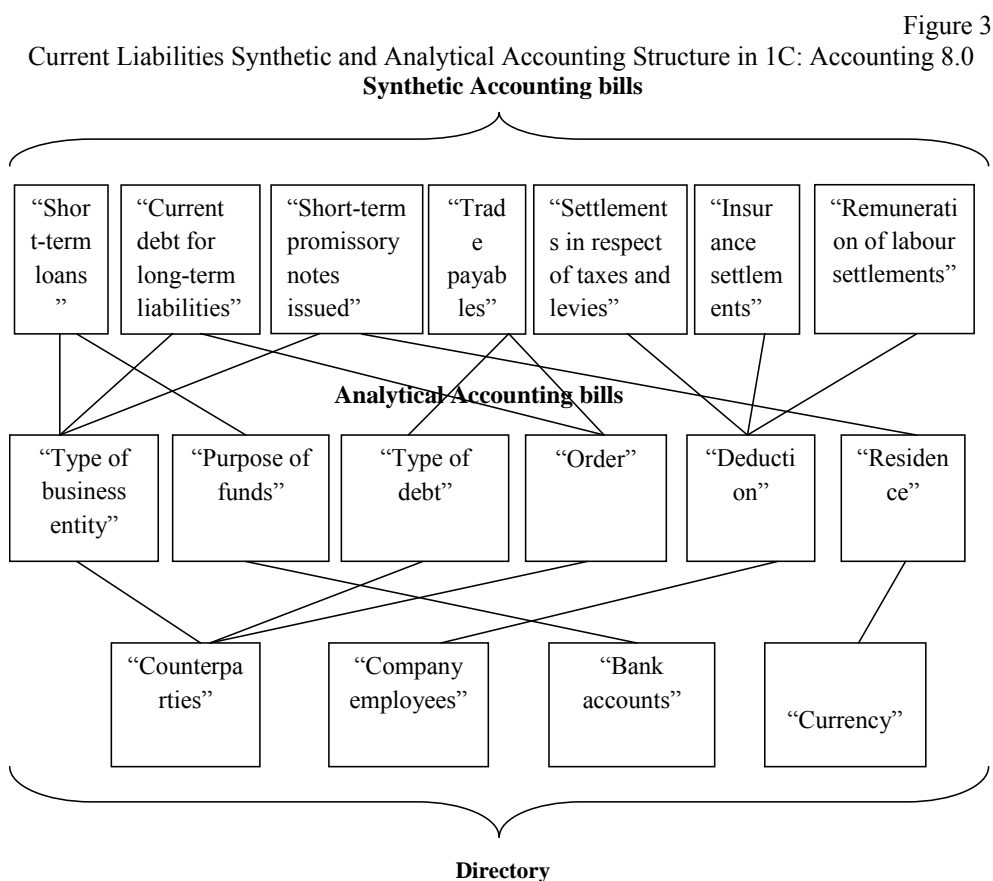
One way to improve the company's internal control and accounting of the transactions with current liabilities is to increase the analytics sections. In it turn, this will provide the necessary accounting information for decision-making and internal control over financial and economic activity of the enterprise. The financial statements do not disclose this information to users. Itemized reporting forms may be improved by adding the relevant analytical forms that reflect information on current liabilities.

In 1C: Accounting 8.0, analytical accounting of the current liabilities by sections within the same account shall be set in the process of software configuration. Analytical accounting is provided through the use of a set of Subaccount types (a set of similar items of analytical accounting) and making use of Directories.

To ensure users' needs for information on current liabilities accounting it is necessary to enter the corresponding sub accounts in the Directory of accounts, set the correspondence and analytics.

To do this, it is necessary to attach appropriate Subaccounts to the respective pre-established Directories. Namely, Subaccount “Type of economic entity”, “Type of Debt”, “Order” to “Counterparties” Directory; Subaccount “Purpose of funds” to “Bank Accounts”; Subaccount “Deduction” to “Employees of the company” Directory; Subaccount “Residence” to “Currency” Directory.

Structure of synthetic and analytical accounting in 1C: Accounting 8.0 using the relevant Directories of current liabilities is shown in fig. 3.



Thus, 1C: Accounting 8.0 software enables to carry out internal control of the transactions with current liabilities by creating the necessary components for their analytical accounting.

Users can independently manage their own methods of current liabilities accounting under the accounting policy setting by creating new sub-accounts in terms of analytics.

There exists a number of problems related to the application of the 1C: Accounting 8.0 program that enterprises are faced with in the framework of internal control systems, namely:

- program errors resulting in faulty processing of all identical business transactions in similar conditions;
- incorrect representation of accounts correspondence in operations entered manually due to the accountant's deficient professional skills;
- automated accounting requires the employees to have both accounting and programming skills.

Such conditions create the need in highly qualified professionals.

Despite these weaknesses, automated current liabilities accounting software in the company ensures the implementation of internal control objectives: reliability assurance of economic transactions with current liabilities, timeliness and completeness of reflection of economic transactions made, correct reflection of transactions with current liabilities in the financial statements, etc.

## **Conclusions**

The use of software in accounting of current liabilities changes the accountant's functions that were previously performed manually. Accounting process computerization provides continuous monitoring of the execution of relevant documents, accounting records, filling out of financial statements since it has its own structure and algorithms, proposes an accountant the accounting rules set in the system.

Internal control the accounting staff's actions and operation of the current liabilities accounting system allows to identify origin of errors in financial and management reporting and prevent their occurrence.

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