



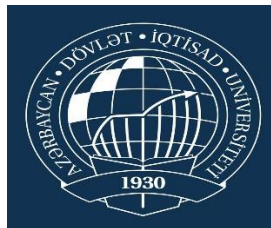
**THE MINISTRY OF EDUCATION OF
AZERBAIJAN REPUBLIC**

**THE ROLE OF FINANCIAL ACCOUNTING
IN BUSINESS**

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CHAPTER 1. FINANCIAL ACCOUNTING: BASIC CONCEPTS AND PRINCIPLES

1.1 Definition and introduction

Accounting is an orderly system for collecting, recording and summarizing information in monetary terms about the assets, liabilities, incomes and expenses of the enterprise and their changes by continuous, continuous and documented accounting of all business transactions.

In order to understand the essence of accounting, we will become acquainted with certain concepts, economic categories, terms used in its organization.

Since the issuance of the Civil Code of the Azerbaijan in normative acts issued by federal bodies with respect to economic entities, the concept of

"organization" appears, which can cause linguistic difficulties, for example, "Organization of accounting of fixed assets in the organization." In this regard, this training manual will often use the term "enterprise" as a synonym for the term "organization".

The object of accounting application is an enterprise.

The legal and organizational form of the organization is determined by the Civil Codex of the Azerbaijan.

The methodological foundations of the organization of accounting and its principles are defined by the Federal Act of the Azerbaijan Republic "On Accounting".

The main tasks of accounting are:

- formation of complete and reliable information on the activities of the enterprise and its property status;

- providing information necessary for internal and external users of financial statements to monitor compliance with the legislation of the Azerbaijan when the business conducts business operations and their appropriateness, availability and movement of property, liabilities, use of material, labor and financial resources in accordance with approved norms, standards and estimates;

- preparation of data for the preparation of reliable financial statements;

- formation of the actual cost price of the products (works, services);

- prevention of negative results of the economic activity of the enterprise and identification of economic reserves to ensure its financial stability;

- determination of the financial performance of the enterprise.

The main functions of accounting: control, information, property security, feedback, analytical.

The subject of accounting is the financial and economic activity of the enterprise, aimed at fulfilling the statutory obligations.

Objects of accounting are:

- property of the enterprise;

- obligations of the enterprise;

- economic operations carried out by enterprises in the course of their activities.

According to part one of the Tax Code, property is understood as the types of objects of civil rights pertaining to property in accordance with the Civil Code of the Azerbaijan.

To carry out economic activities, the enterprise has the necessary economic means. Depending on the role they play in the process of production and circulation, economic assets are divided into groups: non-current and current assets.

Fixed assets:

- capital investments;
- fixed assets;
- intangible assets;
- profitable investments in tangible assets.

Current assets:

- production stocks and costs;
- cash;
- funds in settlements (accounts receivable);
- financial investments.

The economic means necessary for the activity of enterprises are formed at the expense of various sources, which are divided into own and borrowed.

Own sources:

- authorized capital;
- Extra capital;
- Reserve capital;
- profit.

Borrowed sources:

- bank loans;
- commercial loans;
- debts to suppliers and contractors;

- arrears to staff, but wages;
- arrears of payments to the budget;
- indebtedness to other organizations and individuals. Economic processes

should be considered as a set

constituent elements - the facts of economic life.

The economic processes performed at the enterprise include:

- the process of preparing the means of production;
- the process of production of products
- the process of selling products, tangible assets, fixed assets, intangible and other assets.

These processes consist of a variety of economic operations. A business transaction is a fact of economic life (internal or external) that influenced the state of capital, property and financial liabilities of the enterprise. Basic principles of accounting:

- the enterprise is considered as a separate accounting entity.

The property and liabilities of this enterprise are accounted separately from property and liabilities of owners and other enterprises;

- the use of the accrual method and the delineation of business activity between related reporting periods. Income and expenses are recognized and reflected in those periods when there was a fact of the transaction;

The company is currently operating and in the near future. It has no intentions and the need to liquidate or significantly reduce activities, and consequently, the obligations will be repaid in accordance with the established procedure (the assumption of continuity of activity);

- property and liabilities are valued. Assessment should be made with possible accuracy and caution;

- the principle of materiality. Mandatory reflection in the accounting statements of such information, inaccuracy or absence, which affects the financial performance of the enterprise or the adoption of management decisions;

- the principle of prudence. The professional judgment of the accountant is based on the fact that revenues are recognized only when there is reasonable assurance of their receipt, and costs when there is a reasonable possibility of their production;

- the principle of objectivity. Means professional training and ethics of the accountant.

1.2 Concepts and Principles of Financial Accounting

The concept of accounting is the basis for building an accounting system that determines the rules or recommendations in accordance with which accounting records are formed by the subjects of all sectors, types of activity and organizational and legal forms. In other words, the concept is a logical precursor to the development of accounting principles.

Conceptual framework, the following aspects are considered:

objectives of financial reporting;

basic principles of financial and accounting reporting;

determination, confession and measurement of elements of financial statements.

The conceptual basis is guided by all entities in the preparation and submission of financial statements. Any science and accounting is not an exception, it must have its own principles. According to the definition, the principle (from the Latin principium - the beginning, the basis) - the starting position of any theory, doctrine.

Principles of accounting are the basis for the development of specific rules for record keeping, enshrined in standards, regulations, regulations, accounting.

For the first time, the basic principles of accounting were formulated in the United States in the 1940s. There are different points of view, by the definition of accounting principles based on various characteristics. Principles of accounting are the basis for maintaining the entire accounting process and reporting.

The basic principles of accounting information: the principle of charging, the principle of continuous activity, the principle of a separate enterprise, double entry, the principle of monetary measurement, the principle of confidentiality.

Financial statements are prepared on the accrual basis, according to which incomes are recognized when they are earned, and expenses and losses when they are incurred, and not when cash is received or paid. According to the accrual principle, accrual, deferral and distribution procedures should be used to bring income and expenses of the reporting period in line with the income that can result from the same or indirectly related transactions or events.

The principle of continuous activity - assumes that the entity will continue its activities for an indefinite period of time and that there is no confirmation that the entity has the intention or need for liquidation in the foreseeable future or a significant reduction in activity.

The principle of a separate property (enterprise) proclaims the legal independence of an economic entity. According to the Englishman F. Woud: "Accounting is limited to the scope of the enterprise and does not apply to the personal funds of its owners."

The principle of double entry is that the influence of economic factors on the financial position of enterprises in the accounting information model is taken into account twice: once by the debit of one or several accounts, the other by the credit of one or several accounts. The amount of debit and credit turnover for each transaction is always equal to each other.

The principle of monetary measurement means that only the fact of economic life expressed in money can become an object of accounting. In contrast to our theory, which recognizes both monetary and natural measures, in the United States emphasize the exceptional role of money alone. Due to the fact that the principle of monetary measurement is proclaimed, only the value, but not natural, movement of values is recognized as an object of accounting, which is especially important in accounting for fixed assets and commodity-material assets.

The principle of confidentiality means that accounting information is provided only to persons who have the permission of the head of subjects. Auditors and other persons having access to accounting and accounting documents are obliged not to disclose the said information without the consent of the owner and do not have the right to use it for personal interests.

Users impose certain requirements on financial statements, since the decisions made on the basis of reporting data are directly influenced by the quality of the latter. Such requirements are called qualitative characteristics of the reporting information. IFRS distinguishes four main qualitative characteristics: clarity, relevance, reliability and comparability.

The intelligibility of information means its availability for users' understanding, i.e. understandable. The appropriateness of information is determined by its ability to influence economic decisions, helping users evaluate past, present and future events, confirm or correct their past assessments. Relevance is considered in terms of the nature of the information and its relevance.

According to international standards, information is recognized as essential if its omission or distortion can affect the economic decision of users made on the basis of financial statements.

Reliability of information is ensured by: its true representation, i. information must correspond to the actual state of affairs; the predominance of content over the form (events in the reporting should be reflected on the basis of

their economic content, and not only the legal form); neutrality (the reporting should not be influenced by the subjective opinions of its drafters); prudence (expressed in the conservatism of assessing the facts of the economic life of the enterprise, assumes the maintenance of a certain degree of caution in the process of forming judgments that do not allow the assets or revenues to be overstated and liabilities or costs to be understated); the completeness of reporting data.

Comparability of information means the comparability of data reported in the reporting with the relevant data of the coming periods or data of other companies. Comparability is ensured through the consistency of accounting methods, in addition, most reporting forms contain data for the previous period for similar indicators.

It should be noted that, according to the concept, the limits of significance and reliability of information are:

- Timely provision of information. In order to make a timely management decision, the data on the business transaction can be printed until the moment when all aspects of this operation become known. This reduces the reliability of information. Conversely, if the presentation of information is delayed until all aspects are clarified, the information can be extremely reliable, but it will lose its relevance. Therefore, it is necessary to choose the optimal balance between the reliability of information and its relevance (significance);

- the balance between benefits and costs. The benefit of receiving from information must exceed the cost of collateral. The evaluation of benefits and costs is mainly made on the basis of judgment;

- balance of principles (balance between qualitative characteristics). In practice, it is often necessary to find the optimal balance between qualitative characteristics (between principles except for the principles of accrual and continuity) in order to realize the main target of financial reporting.

In accordance with the Law of the Republic of Azerbaijan "On Accounting and Financial Reporting" No. i-38 of April 18, 2006, the principles of accounting and financial reporting are:

The principle of accrual - in accordance with this principle, income is recognized (recorded in the account) when they are earned, and costs and losses when they are incurred, and not then. When funds are received or paid.

The principle of continuity - it is assumed that the enterprise continues its activity for an uncertain time period and that there is no confirmation that the enterprise has the intention or the need for liquidation in the foreseeable future or a significant reduction in activity.

The main qualitative characteristics of the statements of finance are:

Clarity - it is assumed that represented in the financial statements - information should be clear to users. It is assumed that for this purpose users should have sufficient knowledge in the field of economic and economic activity, accounting and the desire to study information with due effort;

Relevance. Actual information affects the economic solutions of users, helping them assess past, present and future events, correct or confirm past assessments. Information on the financial position and results of operations in previous periods is often used to predict future financial position and performance, as well as other aspects directly interested in users.

The appropriateness of information is seriously influenced by its character and materiality. Information is very important when its omission or distortion could affect the economic decision of users made on the base of financial statements (useful information). Essentiality rely on the size of the object or the error assessed in specific conditions ska or distortion of information, that is, it shows a boundary or a reference point and is not the main qualitative characteristic that information should possess in order to be useful. Reliability is a property of information that assumes its sufficient freedom from errors and predilections, and also that it accurately represents what it was supposed to provide. Information is reliable when there are no significant errors and distortions in it, and when users can rely on it as truthfully presented. To ensure reliability, information must reflect operations and other events truthfully. For a true representation of operations and other events, it is required that they be taken

into account and represented in obedience to their economic reality and essence (nature), and not just their legal form. To ensure reliability, the information must be neutral that comprised in the financial statements, (unbiased).

When compiling financial statements, organizations have difficulty in reflecting uncertain events and circumstances, such as obtaining doubtful claims, the likely life of fixed assets, the number of possible guarantee claims. Such uncertainties are recognized by disclosure of their nature and extent, and compliance with the precautionary principle in the preparation of financial statements. Diligence is the observance of a certain degree of caution in the formation of judgments for calculations required in conditions of uncertainty. At the same time, assets or revenues should not be overstated, and liabilities and expenses are understated. To ensure reliability, the information in the financial statements must be complete, taking into account the materiality and costs of obtaining it. The omission of information can lead to the submission of false or misleading reports that are unreliable and imperfect in terms of its relevance. Comparability - in order for financial information to be useful and informative, information should be comparable from one reporting period to another. Users should be informed of the accounting policies, all changes in this policy and the results of such changes used by the organization in the drafting of the financial statements.

CHAPTER 2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Financial Accounting Standards

To facilitate understanding of financial statements by its users, a number of generally accepted accounting principles (GAAP) were developed, consisting of criteria, rules and procedures commonly referred to as accounting standards as a guide to financial accounting and reporting.

As discussed earlier when determining users of accounting information, enterprises of different countries compose and present financial statements in different ways. Moreover, in some countries, such as France, Germany and Japan, accounting standards are established by law; at the same time in other countries, such as Australia, Canada, Sweden, the United Kingdom and the United States, the accounting profession is more actively involved in the process of standard setting. For instance, in the United States, the Financial Accounting Standards Board establishes accounting standards, which are then monitored by the US Securities and Exchange Commission, which is a public body for investors' defense (protection).

The purpose of the International Accounting Standards Board (IASB) is to harmonize regulations, accounting standards and procedures around the world by developing a set of International Accounting Standards that all can agree with.

Standards adopted before 2001 are called International Accounting

Standards (IAS), all subsequent standards are called International Financial Reporting Standards (IFRS). Given that the financial reporting's principal target is to provide information useful for making economic decisions, the IASB believes that these accounting standards will meet the needs of most users.

Of course, national standards bodies and governments will also want to include some differing or additional requirements for their own purposes, but this should not prevent the basic need to provide relevant information for economic decision-making.

However, accounting standards do not resemble the immutable laws of nature used in such areas as chemistry and physics. They are developed by accountants, businesses and legislators to meet the needs of decision makers and can change as best practices or circumstances change.

In this material, we present the main elements of accounting practice based on international accounting standards. We also try to explain the reasons or theory behind the practice, and adopt a global perspective that takes into account the practice of different countries, where appropriate.

Both theory and practice are part of the study of accounting. It should be understood that accounting is a constantly changing, growing and improving discipline. Just as for the introduction of a new surgical method or life-saving medicine, years of research are required, and it may take years for research and discovery in accounting. As a result, you may encounter in practice with inconsistent cases.

2. International Financial Reporting Standards (IFRSs)

International Financial Reporting Standards (IFRS) is a set of IFRS that specify how specific types of transactions and other cases should be represented in the financial statements. IFRS are published by the Council on International Financial Reporting Standards, and they accurately determine how accountants

should maintain and present accounts. IFRS have been created to have a "general language" of accounting, because business standards and record-keeping can differ from company to company, also from country to country.

The purpose of IFRS is to support transparency and stability in the financial world. This lets enterprises and investors (individual) to make qualified financial decisions, as they can accurately see what is happening with the company they want to invest in.

IFRS are standard in many sides of the world, involving the European Union and a lot of countries in Asia and South America, but not in the United States. The Securities and Exchange Commission (SEC) is in the operation of deciding whether to accept standards in America. The countries that benefit most from standards are those who are leading international business and investing in it. Experts suggest that the global implementation of IFRS will save money on alternative comparative costs, and will also allow for more free information transfer.

In countries that have accepted IFRS, both investors and companies, it is advantageous to use this system, as investors are more probably to invest in the company if the business practices of the company are transparent. In addition, the cost of investment is usually lower. Companies that conduct international business benefit most from IFRS.

IFRS contains a broad range of accounting transactions. There are definite aspects of business practices for which IFRSs establish binding rules. The fundamentals of IFRS are the elements of financial reporting, the principles of IFRS and the types of basic reports.

Elements of financial statements in accordance with IFRS: assets, liabilities, capital, income and expenses.

IFRS principles

Fundamental Principles of IFRS:

principle of accrual. In accordance with this principle, events are reflected in the period when they occurred, regardless of the movement of money.

the principle of business continuity, which implies that the company will go on work in the near future, and the management has no plans or the need to curtail activities.

Reporting in accordance with IFRS should contain 4 reports:

A statement of financial position: it is called a balance sheet too. IFRSs influence how the balance components are interrelated.

Statement of Comprehensive Income: This can be one form, or it can be split up an income statement and an income statement, involving property and equipment.

Statement of changes in equity: known as a statement of retained earnings too. It reflects changes in profit for the financial period.

Cash flow statement: this report summarizes the financial transactions of the company for the period, while cash flows are divided into flows for operating activities, investments and financing. Recommendations on this report are contained in IFRS 7.

Moreover to these main reports, the company must also submit applications with a summary of its accounting policies. A full report is often considered in comparison with the previous report in order to show the variations in profit and loss. The parent company must create individual reports for each of its subsidiaries, as well as consolidated financial statements of IFRS.

CHAPTER 3. THE ROLE OF FINANCIAL ACCOUNTING IN BUSINESS

3.1 The benefits of IFRS/IAS application

The purpose of financial reporting is to be the same language, an information transfer tool - about the performance of the company, its financial stability and creditworthiness, profitability, etc.

As mentioned in the first chapters of the manual, the historical prerequisites and national priorities for the formation of financial reporting in different jurisdictions are different. In Azerbaijan, for example, the state's priority in accounting is the tax interests of the state, we have civil law, and financial statements are formed on the basis of the Accounting Regulations (PBU). In the UK, priority is given to the interests of shareholders and investors, the country has a common law, and financial reporting is formed using UK GAAP (Generally Accepted Accounting Principles).

Of course, one can not say that the Ukrainian language is better (or worse) for interpersonal communication than Polish. It can not be said that the Swedish national standards are worse (or better) for the Swedes than the Dutch ones. They are just different.

In a situation typical for the economies of the 18-19th centuries - the economic closeness of national borders - this poses no problems.

But in the context of globalization of the economy, in conditions when international capital markets appeared, when the shares of Azerbaijan companies are successfully listed on Western exchanges, and foreign investors and lenders are looking for partners in Azerbaijan, the national languages of communication - both interpersonal and reporting standards - are becoming The barriers to these processes.

There is a need to develop or define a single, universal language of communication, an information transmission tool.

For the language of interpersonal communication, this language became de facto English. IFRS assumed the problem of single, global approaches to the formation of financial statements.

The use of unified approaches to the formation of financial statements makes the reporting of companies of different countries working in different sectors of the economy comparable. You can prepare a single set of financial statements - and it will be adopted on both the European and Asian exchanges.

In the context of applying IFRS, users of financial statements are easier to make business decisions, and the rating of companies preparing for them is bound to increase, because the quality and transparency of the reporting prepared according to international standards meet the highest requirements.

From the standpoint of those who prepare financial statements, the transition to IFRS will greatly facilitate their work both with regard to the preparation of reports for a particular enterprise and for their group. It is well known that TNCs incur additional costs in the preparation of financial statements.

A skillful professional bookkeeper will be an priceless advantage of the shares of the organization. These people utilize an asking mind should their worth of effort established on the groundwork for their learning of the organization's financials. Utilizing their skills what's personal understanding of the particular company and the nature's domain in which it operates, expert bookkeepers previously, benefits of the business ask testing inquires. Their preparing in accounting empowers them should receive an even minded, also destination methodology should comprehending issues. This will be a profitable possession should management, particularly clinched alongside also medium undertakings the place expert accountants need aid frequently all the just professionally parts about staff.

Bookkeeping experts to business support for corporate strategy, give exhortation what's more help enterprises to reduce costs, increase top line accordance, also reduce dangers. Concerning illustration board directors, expert bookkeepers over business represent those enthusiasms of the holders of the enterprises. Their parts conventionally involve: introducing the association (such as sanctioning yearly plans also accounting of the stakeholders to those

company's performance) naming the boss executive; also deciding management's recompense. Similarly as boss money related officers, expert bookkeepers bring oversight in at matters determining with the company's money related wellbeing. This incorporates making furthermore crashing the vital course of the benefits of the business will analyzing, making furthermore conveying budgetary data. As inward auditors, experienced bookkeepers give free certification will management that that organization's danger management, governance also inside control procedures would operate successfully. They likewise the table exhortation looking into regions for enhancements. In the government funded sector, professional bookkeepers on administration shape monetary approaches that required broad affects on the exists about a large number. Bookkeepers clinched alongside academia are tasked for those significant parts of conferring the knowledge, abilities also moral underpinnings of the calling of the following era.

3.2 The Role of Accounting in Business

Finance and accounting are inalienable connected with a business firm. The study of accounting is that how information is collected and distributed in and out. Primarily in order to operate their business, finance studies how firms make the investment and financing decisions. In order to operate finance requires accounting information. To translate accounting information for general use accounting must have experts (financial).

The main objectives of accounting systems

Accounting helps the manager: a) manage the processes for which he is responsible; b) coordinate these processes for the organization as a whole. This book focuses on how in practice accounting provides a solution to these problems. The information is generated in the accounting for the following three main purposes:

1. Preparation of periodic (routine) internal reporting for management decisions. It provides information decisions taken with a certain degree of regularity. For example, in the Texaco oil company, decisions are made every day to establish retail prices for products (gasoline at gas stations). Daily reports on gross profit from the sale of gasoline in Texaco are one of the examples of information on which decisions are made on pricing in the company. In the cost control system, Marriott uses weekly cost reports (including items related to pay and energy costs) for each of the hotels.

2. Drawing up of irregular (special) reports for managerial decisions. They generate information to provide solutions in situations that arise without a certain periodicity or constitute a precedent. For example, Xerox's decision to use the performance analysis system was based on an analysis of cost data specifically collected to make this decision. Another example - an organization engaged in the production of consumer goods (such as H. J. Heinz Company), can create a special accounting system for managing the costs arising from the appearance of external marriage. 3. Drawing up external reporting, intended for investors, public authorities and other users. In some cases, information obtained from external reporting can be used by managers of outside organizations to make decisions, for example, by the management of a potential supplier to make a decision about the risk of selling on credit, and not for cash. Another example is the company Twentieth-Century Fox, which provides the screen stars with financial information, as their fees include a percentage of revenue generated from the screenings of the film.

The information for each of the main objectives considered can be formed in the accounting system and presented in various ways. The ideal database consists of numerous detailed micro-sets of information that can be used to provide a variety of tasks. Accountants process information taking into account the practical needs of various external and internal users.

Management accounting, financial accounting and production accounting

Consider the features of managerial and financial accounting. Management accounting is a system for collecting and grouping financial and non-financial information, on the basis of which managers make decisions to achieve the organization's goals. The data of management accounting are used, as a rule, within the firm and do not go beyond it. The main purpose of financial accounting is to generate reports intended for external users. Financial accounting measures and records business transactions and compiles financial statements on the basis of generally accepted accounting principles of GAAP. The managers of the enterprise are responsible for the reliability of financial information provided to investors, government authorities and other interested parties. Thus, managers are interested in both managerial and financial accounting.

Production accounting (otherwise cost accounting) presents data for both management and financial accounting. In the process of cost accounting, the collection, measurement and grouping of financial and non-financial information relating to the costs of acquiring and using resources in the organization. In fact, cost accounting is an integral part of financial and management accounting in the part that relates to the collection and analysis of data on the costs of the organization.

The above distinction between managerial and financial accounting for internal and external data assignments is just one of many distinctive features. Another distinctive feature of management accounting is that it deals with the future (budgeting), as well as the fact that this information influences the behavior of managers and employees of the firm (motivation). Also worthy of attention is the fact that management accounting is not regulated as strictly as financial, by the principles of GAAP.

Reports such as the balance sheet, profit and loss account, the cash flow statement of the organization are used in both management and financial accounting. It can be said that most companies adhere to the principles of GAAP and when working with their internal financial statements. But why? The answer

is simple - accounting, based on the principles of GAAP, provides a single and clear way to evaluate the organization's performance for external and internal purposes. But one can not ignore the fact that managerial accounting covers a broader area than financial accounting. It is associated with the development of the organization, the application of strategies and policies in practice, budgeting, justification of various forecasts, the impact on the behavior of employees of the company, etc.

Cost Management and Accounting Systems

Currently, the notion of "cost management" is very often used. Unfortunately, there is still no exact definition of it. We use this term, describing the activity of the manager in the short-term and long-term planning and control of costs. For example, the manager makes decisions about the consumption of materials, changes in the production process, product design, etc. And he takes these decisions on the basis of accounting information.

Cost management has a wide scope. This includes, for example, achieving the goal of reducing costs in subsequent periods of time. It should be noted that the planning and control of costs are closely related to the planning of sales and profit. For example, wanting to increase sales and, consequently, the profit of the organization, managers intentionally go to increase the cost of advertising and product upgrading.

Cost management, as a rule, is not separate, it is often included in the overall strategy of enterprise management.

Now we will illustrate how management accounting contributes to the decision-making process of the planning and control manager.

Planning and control

It shows how the management accounting system in the newspaper The Daily Sporting News (DSN) plays a pivotal role in planning and control decisions. The system allows you to conduct solutions through the organization. Note the following:

Planning is the forecasting of results in the implementation of various alternative ways to achieve the goals of the organization and choosing the best option;

Control - a) checking the implementation of management decisions on planning; b) assessing the effectiveness of these decisions and establishing feedback, which helps in making decisions on planning the activities of the following periods.

A well-designed plan should be flexible enough, that is, allow managers to use unforeseen circumstances in favor of their company. In no case does monitoring mean that managers can not, to some extent, deviate from the intended plan in individual situations to achieve better results.

Feedback: The relationship between planning and control

Feedback is the link between planning and control; it allows the organization's managers to track how the execution of the management decision is implemented; on the basis of collected and analyzed evidence to draw conclusions regarding the adoption and implementation of future decisions. Feedback can lead to changes in the objectives of the organization, changing the process of implementing the management decision, changing the volume and set of information necessary to predict the market situation, etc. Management accounting specialists play a key role in the feedback process connecting planning and control. We will discuss this in more detail later.

Functions of the accountant in the sphere of management accounting

Management accounting includes three main functions - preparing information for making problem decisions, keeping accounts, and orienting managers to deviations.

Preparation of information for adoption of problematic solutions - comparative analysis of possible solutions, analysis of alternative options and determination of the best of them. For example, in DSN, when making a decision to create an Internet version of the newspaper, an analysis was made of

the expected revenue and expected costs for the proposed projects of the three firms.

Account management - data collection and reporting for all levels of management by period and bringing this information to all levels of management. For example, in DSN - it is accounting for data on sales, newsprint purchases, payments.

Orientation of managers to deviations - information support for managers in the management of deviations. This function is associated with the emphasis of managers on the opportunities and problems that arise in the process of implementing the activities of the organization, i.e. on those points that require adjustment. For example, in DSN, managers' attention is drawn daily to: (a) the number of not sold per day and returned newspapers; (b) unit costs incurred in the operation of the printing press. Accountants performing this function should draw managers' attention to the problems associated with deviations, with a view to further adjusting and improving the situation.

Accountants perform these functions at all stages of making managerial decisions. At the planning stage, the most important is the first function - preparing information for making problem decisions. Consider the decision of DSN from the planning sector - to increase revenues from core activities by increasing advertising fees. The bookkeeper should collect statistical information on fluctuations in prices for advertising in DSN and subsequent changes in the revenue amounts received, as well as information on advertising prices set by other newspapers. Information should be carefully analyzed, and based on the analysis, the manager must determine which decision in this situation is most effective, i.e. lead to the desired result for DSN - increase in advertising revenue.

At the control stage, two other functions - account management, as well as managers' orientation to deviations - are more important. At this stage, the information flows back to the manager via the feedback channels. An example of the function of keeping accounts in DSN can serve as an accounting system,

in which the data on the income received from advertising are recorded and taken into account. An example of the second function is an analytical report on the decrease in the actual revenue from the placement of advertising in the newspaper in the context of advertisers who have reduced the volume of orders for advertising or altogether lifted orders after the announced price increase. The attention of managers should be directed to these advertisers, they should think about what measures can be taken to return the interest of lost customers to the publication of advertisements in DSN.

Managers are constantly in the process of making decisions. Information collected at the monitoring stage is generally used in planning. Due to the fact that planning and control are among themselves in constant interaction, management accounting specialists can perform all three main functions in interrelation.

Managers work with the information provided to them by accountants, and, thus, are like customers-consumers of their products. Accountants in preparing information should proceed from the interests of managers. For example, the management account team at Johnson & Johnson, the consumer goods company, has the slogans "Be the best" and "Admire your customers." The success of management accounting depends on whether the results of management decisions improve because of the receipt by managers of accounting information. In Nortel, a telecommunications company, managers participate in the certification of employees involved in accounting. Thus, managers and accountants work in direct interaction, rendering each other considerable support.

A chain of values

Equally important in the planning and control of economic processes play both managers and accountants in management accounting. Processes in the course of economic activity proceed in a certain sequence, forming, as it were, a chain of operations or events, at each stage of which the product or service acquires additional utility and value. Taking into account the sequence of

processes and adding value to each of them, the term "value chain" appeared. We use the notion of "value" because the usefulness of the product or service increases at each stage, and consequently the value of this product for the consumer also increases. Accountants working in management accounting groups provide information support for making managerial decisions during each process.

Research and development - the emergence of the idea of a new product, service or technological process, the implementation of experimental work. At Sony, this process involves searching for alternative ways of television data transmission (for example, digital communication) and ways to achieve the desired shape of the screen, providing the best image quality.

Development of a product, service or process - detailed planning and design of a product, service or process. Sony at this stage determines the total number of accessories for the TV, and also analyzes the impact on the amount of production costs of alternative models of new developments.

Production - the acquisition and processing of material resources necessary for the production of goods or the provision of services. The manufacturing process at Sony includes the acquisition and assembly of electronic components, as well as the packaging of finished products.

Marketing - the stage of the business process, where companies are engaged in promoting their products and selling it. To promote their TVs, Sony arranges trade presentations in retail stores, and actively uses advertising on television and in the media.

Sales - bringing goods or services to the consumer. This process in the company Sony includes the sale of products through retail stores, delivery through catalogs, etc.

After-sales service - After-sales service in Sony includes a guarantee of repair at the company's expense in the event of a TV failure during the warranty period, and a telephone line where the buyer can receive answers to all questions of interest from qualified specialists.

It is worth noting that each process of the value chain is important and none of them should be missed by the organization. In the case of Sony, it can be said that every process is significant in achieving its main goal - the sale of high-quality TVs to consumers and the emergence of a sense of satisfaction from the purchase.

The top management of the company is responsible for the formation of the enterprise development strategy, and this responsibility extends to the entire value chain.

Increase the importance of management accounting systems in the organization

The management accounting system should be focused on the problems that managers may face in their practical activities. Management accounting plays a key role, helping managers focus on these four points.

1. Orientation to the consumer. Consumers are the foundation of the organization's success. The number of organizations whose attention is focused on their customers is quite large and constantly increasing. For example, ABB (Asea Brown Boveri), a global manufacturer of industrial products, attaches particular importance to this factor:

The orientation towards the consumer is the basic principle that we follow in our business. This is the component that constantly encourages us to ask ourselves the question: "What can we do to multiply the value of the goods for the consumer"? Based on the answer to this question, our further actions are planned.

The problem faced by managers is to determine the optimal amount of resources that need to be invested in order to satisfy customers' requests. When this condition is met, they will move into the category of regular customers and can additionally attract their acquaintances. More details will be discussed in Ch. 13, and in Ch. 16 analyzed the profitability of buyers.

2. Focus on key success factors. The combination of these factors has a direct impact on the economic viability of the organization. These are the following factors:

Expenses. The organization must constantly consider alternative ways to reduce the cost of producing products or providing services.

Quality. Consumers expect to receive goods with a high level of quality; today they are much less tolerant of low quality than before.

Time. The time factor includes many components. The most important of them can be attributed: the time spent on the development of a new product and its entry into the market; The speed with which the organization responds to the needs of consumers and the market; observance of delivery terms of products, etc.

Innovation. To date, the universally recognized fact is the need for an ongoing flow of developing new products, services and technologies to achieve its market success.

Managers of the company are also obliged to monitor not only the efficiency of their own organization, but also monitor the situation on the market and the actions of competitors, as the latter can offer consumers something new and thus lure them to themselves.

These issues will be discussed in more detail in later chapters. In particular, Ch. 5 is devoted to the use of the method of operational calculation (ABC or? AB-costing?); Ch. 12 - Calculation of the given parameters; Ch. 13 - the relationship between innovations in the activities of the organization and customer satisfaction; and Ch. 19 - the cost of quality, "narrow" places and the period of time for the implementation of production.

3. Continuous development. The continuous process of improving competitors' products and technologies makes the organization constantly engaged in market research, research of the customer base. We give the following phrases confirming this idea:

a journey that has no end;

if you do not go ahead, you go back.

To achieve a common goal - maintaining a competitive position in the market - companies operating in different industries, focus their attention on various factors. For example, the airline is looking for ways to increase the proportion of flights arriving on time, in the total volume of its flights. For the Internet company, the most important factor is the provision of its users access to the network without failures and delays; for the company Sumitomo Electric Industries, the Japanese manufacturer of electrical wires and cables, focuses on the factor of reducing costs of production, etc.

This topic will be discussed in more detail in Ch. 6 when describing the kaizen budgets, in Ch. 7, devoted to the process of constant improvement based on the "standard-bone" method and in Ch. 10 in the sub-item "qualification curve".

4. Analysis of the value chain and the supply chain. This topic involves two interrelated aspects:

the fact that each of the economic activities of the organization makes a significant contribution to the value and value of the product;

Integration and coordination of efforts throughout the organization's business processes.

A supply chain is understood to mean the flow of goods, services and information, passing from the initial link (the initial producer) to the final (final consumer). As an example, consider the supply chain of companies that produce soft drinks - Coca-Cola and Pepsi-Cola. Many companies take part in the process of creating this product before it reaches the end user. In the process of managing costs, special attention is paid to the integration and coordination of actions of all links in the chain, that is, of all companies and units involved in this process. More details of these issues are described in Ch. 7, devoted to the analysis of deviations, in Ch. 12 - calculations on the given parameters and in gl. 20, devoted to the concept of "just in time" and the analysis of the supply chain.

The four key points of this sub-paragraph are interrelated. For example, the organization's orientation toward its consumer (theme 1) in many companies is a key component in the development and implementation of a new product (topic 2). Product developers are making every effort to reduce costs across all value chain and supply chain operations (themes 3 and 4).

Key rules of management accounting

In order to successfully prepare information for decision-making, account management, the orientation of managers to deviations, management accounting specialists should always remember the three main rules of management accounting:

- use the approach in terms of efficiency;

- treat behavioral aspects as carefully as to technical support;

- use different costs for different purposes.

Approach from the point of view of efficiency ("costs" benefit?)

Accountants often face the need to prepare information for making decisions on the most rational allocation of resources: for example, to purchase a new software package or hire a specialist? When addressing such issues, it is necessary to be guided by the "cost-benefit" approach from the point of view of efficiency, that is, resources should be directed to those of the alternative options that contribute to the achievement of the main goals of the organization and at the same time are less costly. The main criterion for choosing an alternative is the excess of the expected profit over the expected costs.

Different costs for different purposes

In this book, alternative ways of calculating costs are considered. The main thing to remember is that different ways of grouping and calculating costs are used for different purposes. How often they say: "One and the same shoe can not be just right for everyone". The concept of cost accounting, used for external reporting, may absolutely not correspond to the concept used to compile internal reporting of the enterprise. Consider, for example, advertising costs associated

with the launch of a new Microsoft software product. The useful life of the product is 2 years or more. For external reporting (for example, for shareholders), the cost of television advertising is entirely related to the reduction of profits exactly in the year in which they took place. This is a mandatory requirement of generally accepted accounting principles. Conversely, for the purposes of managing an organization (for internal reporting of an organization), the advertising costs incurred can be capitalized and written off to reduce profits over the next few years.

As already mentioned above, financial statements can be targeted both for external users and for use within the organization itself. Therefore, special methods of accounting can be different. If in one situation one method will be applied, then in another situation, it may be more appropriate to apply an entirely different method.

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