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Main problems in accounting system of LLC in Azerbaijan

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Introduction

What is accounting?

Accounting is the one of the oldest and also one of the most important branches of economy nowadays.

The main aim of accounting is to present financial information for decision-making about the business activity. Usually, managers of the company require examine and classify financial information for the purpose of planning, controlling expenditure, programming, determining profitability of company.

What are the branches of accounting?

I. Financial accounting- This branch of accounting consider to prepare financial reports and statements based on historical data for the users of financial information. Also, the main objective of financial accounting is providing shareholders, managers, government, tax authorities, employees, costumers, investors and other external and internal users with a result of financial position and performance of company. The information which is used in the preparation of financial statements must be relevant, neutral, timely, useful, understandable for readers and based on reliable source. Saying financial position ,are considered that it is resources and obligations of business at a certain point of time and financial performance refers to profits and losses of business for a certain period of time.

II. Management accounting - It refers to preparation of annual reports based on historical data for making decision of internal management specially, managers. In management accounting, the annual reports are not published to external bodies, it is prepared for only internal bodies. Because they must make decision about internal purposes, such as profitability and estimate future position of company.

Main purpose of management accounting is providing internal users with a estimated data. It includes budgeting and forecasting, monitoring internal control, analyzing, evaluating business processes and so on. Reports are based on the results of sales, producing, serving, marketing, management, distributing and others.

As we know, there are some grave problems in accounting system of our country. It can be look like international accounting system, but there are main differences between international and national accounting system, so that some countries have their own national accounting system, but others follow international accounting such as IFRS and also GAAP.

I try to research these problems and find solving to them. What are problems of Azerbaijan accounting system? Which differences exist between accounting system of our country and IFRS or GAAP? How these problems can be solve?- I want to answer to these questions.

Chapter 1. Accounting Basics:

1.1. Introduction to accounting

Accounting is a part of social sciences. Accounting information is peerless for its users. The accounting history affect the nature of social developments and in turn, it helps to changing accounting from day to day. During the many years, accounting also reflect the commerce field and in conclusion, this field had been improved. Accounting may be relates to measurement and management. For making decision, it is important that management of data which is used and measurement of recording transaction. Both of them are two fundamental aspects.

The accounting function is useful and significant for every persons, individuals, business entities, commercial and non-profit organizations, companies and other representative of society. Each of them are require to maintain accounts. Most commonly, accounting and measurement and management of financial information is very important for stakeholders, investors, and other entities for decision making.

Accounting helps to collect ,classify, and present data to the shareholders, stakeholders, Government, investors, debtors, creditors and etc., for proper management environment.

The main aim of accounting is to present financial information for decision-making about the business activity. Usually, managers of the company require examine and classify financial information for the purpose of planning, controlling expenditure, programming, determining profitability of company.

Specially, bankers, investors, debtors, creditors, financial institutions, government bodies and other outsiders require financial information with graphs and charts.

American Accounting Association gives the most commonly used definition of accounting. In the main to definition, accounting is determining, measuring, classifying information for making the correct decision at any time by its users. This means that:

- There must be certain users of certain accounts who needs financial information,
- This information can be allow the users to make decision,
- The information about transactions, actions, operations and events mus be measurable and identifiable.

As we noticed before, the main objective of accounting is to provide entities with relevant financial information. That's why the financial statements are prepared for achieving this and other objectives of accounting in company.

There are some entities need financial information who interested in organization. These are also called the users of financial information. They are:

a. Shareholders- These entities are also called the stakeholders. Stakeholders usually want to see the financial statements of company about its position and performance because they must to estimate that they gain money as dividend from yearly profit or loss. They get relevant information which is useful for them from these statements.

b. Investors- They can be consist of existing and potential investors. Investors want to get information about the financial performance of company. If the financial performance of is highly profitable for them, in this case, they think about future investment, if is not enough profitable they prefer to stay away.

c. Creditors - They can be secured or unsecured creditors. Creditors provide companies with long and short-term loans. They must to get financial information about:

1. Growth and solvency of company
2. Stability and profitability of company
3. Ability of repaying the loans
4. Capability of paying interests in time

d. Consumers- It is interesting to consumers how well the company provide them with goods and services.

e. Government- They are tax authorities and other government bodies. Determining, counting income tax, profit tax, sales tax and ect, and preparing tax reports are material aspects in company accounting. Government, specially tax authorities must to have these information for tax purposes.

f. Managers - They require financial information in some level of management for making decision about planning and managing the processes.

g. Employees - These group of people interested in position and performance of company for the potential benefits and future perspectives of their job.

h. Financial advisers- They want to know relevant information about business activity for providing advise to company and its various business structures.

But why we need for accounting? As we know, accounting is very important in the organization. Accounting is required in the:

- Assets which the organization own
- Liabilities which the organization owes
- The cash position of the organization
- Estimated future position and performance of the organization
- Current position and performance of the organization

These things are necessary for decision-making process which directors, managers, shareholders and other users of accounting information do. Also, the need for accounting is sourced from them.

And one more question: what is the role of accountants? Accountants have the various roles and obligations in the organization:

- Data management- Accountants must record all transactions take place inside of organization, select material information for decision-making process.
- Analyze - Accountants analyze financial data and transaction records, and transfer them to trial balance.
- Prepare financial statements- Accountants considering all these data, summarize them and prepare financial statements.

Accounting principles are based on some basic concepts. Actually, this is the slightly complicated issue, because many accountants and theorists do not agree with concepts and think that they are not significant. All the same, most common concepts are necessary for understanding accounting:

1. Going concern
2. Accruals
3. Business entity
4. Materiality

1. Going concern: According to going concern concept, organizations prepare financial statements, that the business will exist in the future. When the business is still operate, revenue and expenditure can be deferred for the future period.

2. Accruals: For this concept, revenues and expenditures are recognized only when the cash received and paid. In the other words, sales and revenues will recognize when the costumers pay money to company, not they take place. In the same, expenses are recognized if the company pay money to suppliers and its

employees. Most of the time, this concept are used by the auditors will only confirm the financial statements are prepared. This is also known as matching convention.

3. Business entity: This concept implies that the business treats as a separate legal entity. In the other words, business operates as a separate entity from its owners. For example, the owner of company withdraw cash from the business for her personal use. In this case, there will be reduction of owner's capital and amount of drawings will appear as a liability in the balance sheet.

4. Materiality: According to materiality concept, financial statements are prepared with the material information, because readers of this statements must make a decisions based on it. If the accountants do not follow this criteria while statements are prepared , the accounting standard can be ignored. Accountants must decide which information is useful and material for the readers and ignore immaterial items.

1.2. Branches of accounting

With an affect of development in economic field, specially, accounting field, different branches of accounting are created. Today, there are some branches of accounting: financial accounting, management accounting, cost accounting, taxation, project accounting, government accounting, international accounting, social accounting, forensic accounting, fiduciary accounting, and finally, auditing. Each of these branches has specific characteristics and they are used in certain area.

I. Financial accounting- This branch of accounting consider to prepare financial reports and statements based on historical data for the users of financial information. Also, the main objective of financial accounting is providing shareholders, managers, government, tax authorities, employees, costumers, investors and other external and internal users with a result of financial position and performance of company. The information which is used in the preparation of financial statements must be relevant, neutral, timely, useful, understandable for readers and based on reliable source. Saying financial position ,are considered that it is resources and obligations of business at a certain point of time and financial performance refers to profits and losses of business for a certain period of time.

Financial accounting are required from the organizations, shareholders, owners, creditors, debtors and etc. Financial accounting is preparing the statements of financial position(also known as balance sheet), statements of financial performance (also known as income statement), statement of cash flow and statements of changes in equity (this statement is usually prepared within the balance sheet).

When preparing financial statements, accountants must follow some principles, standards and rules. However, they are different for some regions and countries. American companies follow the standards of Generally Accepted Accounting Principles (also known as GAAP) , other companies in the world specially, European companies use International Financial Reporting Standards, and some companies use national accounting in their countries.

II. Management accounting - It refers to preparation of annual reports based on historical data for making decision of internal management specially, managers. In management accounting, the annual reports are not published to external bodies, it is prepared for only internal bodies. Because they must make decision about internal purposes, such as profitability and estimate future position of company.

Main purpose of management accounting is providing internal users with a estimated data. It includes budgeting and forecasting, monitoring internal control, analyzing, evaluating business processes and so on. Reports are based on the results of sales, producing, serving, marketing, management, distributing and others.

III. Cost accounting- This type of accounting including recording, analyzing and presenting of costs. They may be manufacturing, actual and standard costs. Because of manufacturing businesses have complicated costing process, cost accounting is very significant for these type of businesses. Cost accounting also helps to management for identifying and estimating future position about company about its operations.

IV. Tax accounting - Reports which are prepared for the tax purposes are very significant. Tax accounting helps to companies for determining the amount it must be paid. For minimizing tax amount, tax accountants are helper of companies. As we know, taxation part is significant when preparing balance sheet, income statement and statement of cash flow. Thus, tax accounting also assist to financial accountants to prepare statements. In our country, tax accountants mainly count income tax, profit tax, sales tax, VAT and others.

Tax accounting is based on laws set by tax authorities. Tax counting, planning, tax returns preparing, identifying and minimizing income and other taxes belong to tax accounting.

V. Government accounting - This special branch of accounting consider separating and utilization of government budgets.

VI. International accounting - Nowadays, most of companies require accountant who knows international accounting, its principles, standards and rules. This is significant for integrating world and being a prestigious company. Other than small business, big companies and holdings use international accounting in Azerbaijan.

VII. Social accounting - It is considered for determining the affect of accounting to the society. Social accounting helps to accountants to identifying social costs and benefits and the results of them to company.

VIII. Forensic accounting - Bankruptcy, falsification, manipulation of accounts and inventories are included to forensic accounting. It is concerned for litigation process, researching and problem solving. During the litigation process, for can giving proof, accountants research financial evidences and analyze them.

IX. Fiduciary accounting - Property accounting, entrusted accounting, and also receivership are included to fiduciary accounting. It refers to management of financial records by one person who is saver of another person's property which is given to him for his benefit.

X. Auditing- This branch of accounting is checking financial statements and examining internal system of the company. Auditors can be internal and external.

External auditor is a person who checks the financial statements, controlling its compliance with GAAP, makes decision and gives independent opinion about the result of financial position, performance of company. They are also, giving essential review fairly firms. İn the world, there are four main firms which have better priorities about auditing huge companies and institutions. These firms are PriceWaterHouseCoopers, Deloitte Touche Tomatsu, Ernst & Young and KPMG – they are also known as The Big Four.

The main obligation of external auditors is presenting audit services to companies which are outside the organization. Furthermore, the fundamental responsibilities of internal auditors refer to company management and its structures. Based on goverment rules and operation systems, internal auditors assess the risks which involve danger circumstances for company. The responsibilities of internal auditors are leading effective and efficient operations, ensuring completeness and reliability of financial information, protecting of assets and following to rules and laws in the aggreements.

1.3. The accounting process

Firstly, the accounting process is also known as accounting cycle.

Accounting process consist of three kind of transactions which are used to register business operations. Afterwards, these business operations are combined in the financial statements of company. Operations are:

1. To provide revoking operations from the previous year which is reversed;
2. To carry accounting of business records;

3. The periodic final of process;

As it is noted that there are three portion of accounting process:

1) Starting the process

In the beginning of year, all transactions which are recorded at previous year must be checking. This ensure that transactions are not recorded again in the current year. Additional, the transactions are recorded in the accounting software, so the reversal of them must be realize automatically. Just in case, accountants have to control this process.

2) Individual transactions

Accounting process is given for individual transactions as follows:

1. Determining events which are sourced from accounting transactions - These can be:

a) Buying new materials;
b) Repaying long and short-term loans;
c) Selling goods and services to costumers;
d) Receiving cash from costumers;
e) Paying cash to suppliers of materials;
f) Paying wages of workers and so on.

2. Preparing documents – Always, there is a document concerning take place of transaction. For example, invoice from suppliers for buying materials, invoice from costumers and so on. This documents are very significant for preparing financial statements.

3. Determining accounts – Every accounts are recorded in the accounting software such as assets, liabilities, shareholder’s equity, revenues and expenses. Accountants must determine which accounts are recorded in this software.

4. Transaction recording – Accountants have to enter transactions in the accounting system. İt can be occurs with daily entry journal and online form.

All these steps are essential for recording individual transactions in the accounting process.

3) In accounting process, whole of steps are used for combining all information and presenting financial statements.

1. Preparation of trial balance – The most common definition of trial balance is that it is a schedule of ending balances of each account and with it understanding of trial balance becomes easier. İn trial balnce, the sum of all debits must be equal to the sum of all credits. However, debit and credit section are not equal to each other, this means that there are some problems and errors in trial balance and undoubted, they must be researched, detected and corrected.
2. Adjustments in trial balance – Adjusting of trial balance refers to correcting errors, creating allowances and regulating revenues and expenditures.
3. Preparation of adjusted trial balance – This step consider that it is a original trial balance plus (minus) all regulations which are made subsequently.
4. Preparation of financial statements – The financial statements of company are prepared basis of adjusted trial balance. There are four statements: balance sheet, income statement, cash and changes in equit statement.
5. Closing the period – This step involves moving the balances from revenue and expense account to retained earnings account, being ready for the next period.
6. Preparation of post-closing trial balance – In this step, all revenue and expense accounts in the trial balance have zero balance.

1.4. Financial statements

Financial statements are reports which are prepared for stakeholders about the financial position, financial performance and changes in financial position of organizations. They are used for identifying the ability of company generating cash and using cash and paying cash to its debts. The financial statements are as follows:

1. Statement of financial position or balance sheet – it consist of assets, liabilities and shareholder’s equity. In this statement, assets must be equal to liabilities plus shareholder’s equity. It is important that there is a balance between this two sections.
2. Statement of profit and loss – it consist of revenues, expenses, profits, losses other sections. İt shows the result of business activities of organization.
3. Statement of cash flow – it shows the changes in net cash of company for a certain period.
4. Notes to statements – it is additional explanation or information for statements.

İf company prepares its financial statements, it has to follow one of the accounting framenworks and this statements must be based on it.

Most of companies require income statement and balance sheet at the end of their financial year.

İf each statements is viewed separately, the explaination of meaning on financial statements become easier.

Balance sheet. It includes the assets which company or organization owns, liabilities which company or organization obligate and equity of shareholders. The balance sheet is a summarisation of financial position of company at a given point of time. Balance sheet refers to this formula:

Assets = Liabilities + Shareholders’ equity

According to this equation – assets equal to liabilities plus shareholder's equity, the balance sheet gets its name from the balance of assets and liabilities plus equity.

For understanding, it can be given some examples, such as the "AzStarnet" LLC takes 10,000 AZN credits from the "Kapital Bank". Thus, there are 10,000 AZN in the cash(asset) and 10,000 AZN long-term liabilities of "AzStarnet" LLC, the formula is right: assets(10,000 AZN) = liabilities(10,000 AZN) + equity(0 AZN). Or another example, investor places 5,000 AZN to "Metronet" LLC, and "Metronet" LLC has 5,000 AZN in its cash and shareholder's equity. This means that, assets(5,000 AZN) = liabilities(0 AZN) + equity(5,000 AZN), The company's assets also, equity will increase by 5,000 AZN.

Assets, liabilities and equity- each section of the balance sheet, explain the meaning of current position of the company. These sections are obsoulutely different from each other, but all of them are the most important and depend on the nature and size of company.

Assets. It is financial resources of company which can be turn into cash within the one period(usually in one year) easily. Most common used definition of assets are – an asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (according to BPP ACCA financial accounting study book) . There are various types of assets:

1. Current and non-current assets
2. Short-term and long-term assets
3. Tangible and intangible assets

Current asset. It is the resources of company that can be easily turn to cash in the short-term period. Because of this, these are known as the short- term assets. Current assets are as follows:

- **Cash and cash equivalents** are the most liquid(ability to turn into cash) asset.
- **Receivables or accounts receivables** are money that the company gives to their consumers. For example, the company gives 500 AZN to costumers, thus, the company's accounts receivable is 500 AZN and it is placed on the asset side of balance sheet.
- **Inventories** are thing that the company uses of them for sales purposes. Inventories of company are measured at the lower of their cost and net realizable value.
- **Prepayment** refers to prepaid expense and prepaid revenue. If the company pays money to their expense which relate to the next period, it will be prepaid expense. For example, if the company pay money for the internet expense relate from December to June in the November, it is the prepaid expense of company, because it relates to next period, but it is incurred in the current period. On the other hand, if the costumer pay money for their internet expense which relates from December to June in the November. This means that the company receive money in the current period, but this money relates to expense of the next period.

Non- current assets. They are also known as a long-term assets. The liquidity of these assets are lowest and they are used for producing goods and services or other purposes. Generally, non-current assets:

1. Goodwill
2. Long-term investments
3. Property, plant and equipment
4. Land and buildings
5. Machinery and so on.

Tangible assets have physical form such as plant and equipment, land, building, machinery, however, **intangible assets** have no physical form such as goodwill, research and development costs and others.

Liabilities. The best definition to the term of liability – it is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits(according to BPP ACCA financial accounting study book). Liabilities are the obligations of company which company owes to shareholders, creditors, costumers and others. The types of liabilities are:

1. Current and non-current liabilities
2. Short-term and long-term liabilities

Current or short-term liabilities are the current obligations which the company has to pay within the one financial period(usually within one year). The current or short-term liabilities can be as follows:

- Interest payable
- Rent
- Tax payable
- Wages payable
- Accruals
- Short-term borrowings
- Current portion of long-term borrowings
- Trade payables
- Short-term provisions
- Bank overdrafts and bank loans

Non-current or long-term liabilities are obligations which the company must pay money for them within the long period of time. They are:

- Long-term debt
- Pension fund liabilities
- Deferred tax liabilities
- Long-term provisions

Operating leases are not shown in the balance sheet, because they are off-balance sheet liabilities.

Shareholder's equity. They are the obligations that the company owes to stakeholders. The equity of shareholders is also known as the net assets which equal to total assets minus total liabilities.

Income Statement. It is usually prepared at the end of specific period of time and it measures the financial performance of company. Income statement gives information about the revenue, expenses, profit and totally profit and non-profit activities of organization. As we know, the statement of financial performance is the one of main statements and each of them provides certain information to financial users. However, only statement of financial performance gives information about the sales, profit, expenses and finally net income of organizations.

If the sales take place, this means that the income statement begins and it continues until getting net income and earnings per share. On the other hand, the difference between balance sheet and income statement is that balance sheet is prepared only at a certain point of time, but income statement is prepared for a certain period of time.

The business activities can be operating activities and also non-operating activities. Operating activities are about producing process of company. For example, if the "AzSarnet" LLC is a internet provider company and sells internet to its costumers. Its sales and other expenses which is incurred for sales internet are operating activities of company. Other expenses are not directly relates to sales, such as electricity, insurance, salaries of employees and others are included to non-operating activities. The non- profit expenses are not relevant to production process, because if producing turn off, these expenses must be incurred even so. The statement of financial performance combines both of them.

Usually, financial analysts use income statement to calculate different ratios. In turn, financial ratios are used for comparing financial information about position and performance of company. EBIT(earning before interest and tax), EBITDA(earning before interest, tax ,depreciation and amortization), EBT(earning before tax), ROE(return on equity), ROA(return on assets) and others are the financial ratios and its calculation is based on income statement. Shareholders, consumers, investors, creditors, tax authorities and other users of financial statements must see all sections like revenues, sales, expenses, interests, taxes and others in the income statement. Statement of financial performance can be prepared quarterly or annual, this is depend on its nature, size and wishes of shareholders.

This items include the statement of financial performance:

1. Sales or Revenue
2. Gross profit
3. General expenses
4. Interests
5. EBITDA
6. EBIT
7. EBT
8. Tax expenses
9. Net income
10. Other comprehensive income

The statement must be useful and significant for its readers and they have to get beneficial and valuable information. In turn, it depends on the nature and financial situation of organization to a great extend. So, expenses differentiate from company to company, they can be about telephone, insurance, electricity, wages and so on. It may be appropriate that the formula of company's profit are calculated like this;

Profit before tax = Revenue –(Raw materials which are used + Workers benefit + Depreciation + Telephone expense + Electricity expense + Insurance expense + Wages and salaries of employees + Other expenses)

Generally, the formula above are written :

Gross Profit = Revenue – Cost of sale

Thus,

Profit before tax = Gross profit – (Administrative expenses + Research and Development expenses + Distribution expenses)

Revenues and Expenses are about:

1. From primary activities
2. Secondary activities

Gains and Losses are about:

1. From the sale of long-term assets
2. From lawsuits

When the revenue minus expenses equal to positive amount, it is called net income. When the revenue minus expenses equal to negative amount, it is called net losses.

Revenues from primary activities are also known as a operating revenues. The main activities of sellers are sales of goods and services. At the same time, the main activities of producers are production and sales. The main activities of company are experience and selling this experience to costumers.

It is important that according to accrual basis, the revenue are recognized in the statement of financial performance only it is earned, not the cash is got. In the other words, if the money is earned , revenues recognize, however, if the cash is collected, receipts recognize. For example, the seller sells its products to the costumer A at $500 in March. The costumers will pay the money for its payable to seller in the April. So, $500 revenue is shown in the statement of financial performance in the March, but cash is received in the April. According to another example, the travel company sells their services to costumer B and requires payment for 10 days. The revenue of travel company is recognize in the time when the company serve its services, but they earn money or receive cash within the 10 days.

If the company gets money when it sells goods and services to costumers, thus, the company receipts and revenues are recognized at the same time. Generally, revenue are associated transaction occurs, receipts are associated collection of money.

Revenues from secondary activities are also known as non-operating activities. They are earned or received by company, other than selling and production process. For example, a travel company earn money from the rent of its other vacant office. This revenue are shown in the statement of financial performance in the “other income” section, not the main activities sections.

It is significant that, revenues from primary and secondary activities or with other words, operating and non-operating activities are recognized when they occur not the cash is received.

Gains from the sale of long-term assets and also lawsuits are related to outside of main activities of company. If the money gains exceed the book value , gains will be intervene. The gains are recognized in the statement of financial performance like follows situation:

Gain = receipts of sale of long-term assets – book value

For example, assumes that a travel company decides to sell its computer for $400. But these amounts are not shown in the Sales section of statement of financial performance, because only revenues from sales of services are recognized as a Sales. Sales are only used selling goods and services. The selling of computer are the outside of company's main activities. The carrying amount of computer is $300 in the books of company. So the difference between carrying amount and selling price of computer is referred to gain of company.

Expenses from main activities are incurred about the operating revenues. According to accrual basis of accounting, expenses recognize in the statement of financial performance only they are incurred, not paying money for them. For example, travel company has electricity expenses in the December, but the company pay money for this expenses in the January. Thus, the electricity expense is recognized in the December, not January.

According to another example, a travel company buys building for $400,000 in December 2018. and its useful life is 40 years. The company buys this building in December, but the depreciation expense is recognized every year from 2018 to 2058 as $10,000.

However, if the company pays money, it is not means that the expense is incurred. Because, the company can pay cash for its bank loan. In this case, the assets(cash) and liabilities(bank loan) of company will decrease, but it is not related to expenses.

Some expenses are related to sales and selling process, for example cost of sale and commission expenses are created associated with normal selling process. Other than cost of sales and commission expenses, another expenses are not related to selling process, such as depreciation and tax expenses and so on. But some expenses like advertising, research and development expenses are related neither selling process nor certain accounting period.

In the statement of financial performance cost of sale is the separate section. Other expenses are divided into some categories like administrative, distribution, research and development expenses in the statement of financial performance.

Expenses from secondary activities are related to non-operating revenues. Non-operating expenses include interest expense is not related to producing or selling process.

Losses from the sale of long-term assets and lawsuits are not related to main activities of company.

Assumes that a travel company sells its bus at $50,000 but the carrying of bus is $50,000. Travel company sells services not bus, thus the receipt from the sale of bus cannot recognize as a sales revenue in the statement of financial performance. The amount of difference between carrying amount and selling price is recognized as a loss.

Generally, the formula of net income is:

Net income = Revenue + Gain – Expense – Loss

Net income and other expenses of company must be shown in the statement of financial performance if the company's stock is public.

Another type of financial statements is statement of comprehensive income. The most important section in statement of financial performance- net income is also given in the statement of comprehensive income. It consists of:

- Net income;
- Other comprehensive income

Statement of cash flow. It is related to cash and cash equivalents which the company receives and pays or entering and leaving the business. Cash flow statements is the best measurement of capability of company's paying its debts or loans. The cash flow statement helps to investors to see the ability of generation cash and cash operations of company.

Generally, business activities can be divided into 3 part:

1. Operating activities
2. Investing activities
3. Financing activities

In turn, cash flow statements are related to these type of activities, this means that:

1. Cash generating from operating activities
2. Cash generating from investing activities
3. Cash generating from financing activities

1. **Cash flow from operations** are referred to operational business activities. It begins with Net Income and adds all non-cash expenses. Example of non-cash expense can be depreciation. Also accounts receivable is non-cash item, because when the receivables increase, this means that sales increase, but the cash is not received. In this section of cash flow statement, accounts payable, receivable, depreciation, amortization, taxes and other items are shown.

2. **Cash flow from investing** considers the sale and buying of long-term assets like property, plant or equipment and others. If the company sells its long-term assets, company will receive cash from the buyer and vice versa if the company buys long-term assets, company will give money to seller.

3. **Cash flow from financing** is about the financial activities of company. If the company use its money for financing activities, these transactions are shown in the cash flow from financing activities. Usually, dividend payments to shareholders are related to financing activities.

Statement of changes in equity considers the modification in the shareholder's equity. This means that beginning balances plus modifications equal to ending balances.

Statement of changes in equity. These must be presented in the balance sheet and statements of changes in equity:

1. Retained earnings
2. Share capital
3. Share Premium
4. Dividend
5. Reserves

Statement of changes in equity shows changes between beginning and ending equity of company. Actually, this statement is not important among monthly financial statements, it is only a part of annual financial statements. Statements of company begins with balance between assets and liabilities plus equity and for coming to end of statement some sections such as profit or dividend are subtracted or added. For calculating:

Ending equity= Beginning equity + Net Profit – Dividends

Statement of changes in equity is essential form but most of time, it is added to other financial statements like balance sheet.

Shareholder's equity includes:

1. Share capital
2. Share premium
3. Retained earnings
4. Revaluation surplus
5. Reserves and other components of equity

Most of time, people ask that why shareholder's equity section is the same side with the liabilities. Because, they are also obligation of company, but this obligation is not relate to creditors or costumers, it is relate to shareholders.

Share capital is the money which the shareholders put into business. It consist of common stock and preferred stock. The amount of share capital always can be changed. Share capital is measured by the par value of all common and preferred stock.

For example, "AzStarnet" LLC issues 1,000 shares each $1 and sells them at $2, so the share capital of "AzStarnet" LLC will be $1000 and share premium will be $1000.

Share Premium- If the issuing shares of company are sold the amount which is more than their value, in this case organization gets share premium. Share premium is calculated with the difference between real value and nominal value of shares and it is treated as a separate part of company capital.

Retained earnings is the net earnings that the company achieves and it can be reinvested or paid to expenses or obligations of that company. Retained earnings relates to shareholder's equity on the statement of financial position. The formula of retained earnings is as follows:

Ending R/E = Beginning R/E + Net Income – Net Losses – Dividends

Retained earnings equal to beginning retained earnings plus net income minus net losses and any dividends.

Revaluation Surplus is the gain of company as a result of revaluing of non-current assets. Most of time, the class of non-current assets of company such as building, plant, machinery is revalued continuously and is analyzed by the shareholders and other interested users.

If the company follows International Financial Reporting Standards, it can use the revaluation surplus whereas if the company follows General Accepted Accounting Standards, it cannot use the revaluation surplus.

Dividend is a part of profit of organization which is paid to shareholders. It is about the amount or percentage of shares which shareholders own.

1.5. Financial Reporting

Every company – manufacturing or services are consist of various departments which are focused on achievement of organizational goals. İmportant one of these departments is Finance and Accounting Department. Because shareholders require the reports of finance and accounting side of each departments. Reporting has 2 various types:

a) Financial Reporting
b) Management Reporting

Financial Reporting are prepared for shareholders whereas Management Reporting are prepared for internal management of company. Actually, each type of reporting helds significant responsibilty for company, but the side of statutory and regulatory requirements Financial Reporting is more important than Management Reporting. İt is better saying that Financial Reporting is substantial part of Corporate Governence.

According to book of ACCA financial accounting, Financial Reporting is recording, analysing and summerising of financial data, this is the best definiton to it. Stakeholders require Financial Reporting for seeing the current financial position and performance of organization. At the same time, investors, creditors, debitors public and government agencies can be stakeholders who need Financial Reorting. Financial

Reporting may be prepared for quarterly and annual. Generally, Financial Reporting are prepared at the end of period. The details of Financial Reporting are:

a) The financial statements – Statement of financial position, statement of profit or loss, statement of cash flow, statement of changes in equity and notes to financial statements;

b) Management Analysis Report;

c) Quarterly and Annual Reports.

Every country, including Azerbaijan has accounting standards and principles or use internationally accepted standards and principles for preparing Financial Reporting.

According to Accounting Standard Board, the purpose of Financial Reporting is "to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions." There are some of other objectives exist:

- Giving financial information to shareholders, investors, customers, creditors, government agencies for making right decision;
- Giving information to management of organization for planning, programming and analyzing;
- Giving information about the resources and obligations of company;
- Giving information to auditors for making their work easy;

The importance of Financial Reporting changes from the users to others. Financial Reporting is substantial, because it is used for statutory audit. For giving independent opinion auditors need financial statements of company because they are based on it. Also, Financial Reporting can assist the companies to raise their capital. Financial Reporting allows that the public can analyze their financial position and performance and its management. Financial Reporting is based on reliable and relevant information and that is very significant to shareholders can make right decision.

1.6. IFRS and GAAP

In the world, adapting accounting standards of countries to the same rules is necessary issue. This standards are called as IFRS- International Financial Reporting Standards, and this standards are supervised by the IASB- International Accounting Standards Board. Organizations use IFRS for commercial purposes. Actually, IFRS is not more detailed and industries apply it much more. İt is a bulk of documents which determines rules of preparing financial statements and reporting.

Financial standards were prepared by IASC- Board of International Accounting Standards Committee and they are called IAS- International Accounting Standards from 1973 to 2001. İn 2001, IASC- Board of International Accounting Standards Committee are re-organized and it is changed to IASB- International Accounting Standards Baord. From 2001, IASB- International Accounting Standards Board began to prepare new standards called IFRS.

Difference between international standards and national standards is that international accounting standards are set up principles. The financial statements of companies which prepare their statements based on international standards, are acceptable and understandable for all the world. For this reason, if the company wants to attract new investors, it has to prepare financial statements corresponding to international standards.

GAAP- Generally Accepted Accounting Principles determine standards for companies to record incomes, expenses, assets, liabilities, profits and losses accounts. This principles and standards are used in USA much more. FASB- Financial Accounting Standards Board which carries out responsibility for GAAP- Generally

Accepted Accounting Principles arranges 100 various GAAP. According to GAAP, companies must to prepare their financial statements as the form of statement of financial position, statement of financial performance, statement of cash flow and statement of changes in equity.

But what is the key differences between IFRS and GAAP?

IFRS-International Financial Reporting Standards are used in much more 110 countries, specially, in Europe but GAAP- Generally Accepted Accounting Principles are used in USA. IFRS is based on principles and rules more than GAAP. The key differences between IFRS and GAAP are as follows:

- Methodology
- Intangible assets
- Measuring of Inventory
- IFRS and GAAP operations
- Reverse of inventory
- Statement of financial performance

Methodology- One of the basic differences of IFRS and GAAP is the methodology of measuring accounting processes. GAAP is based on searching but İFRS based on principles.

There is no permission for measuring of inventory with LIFO (last in, first out) method in the International Financial Reporting Standards. However, in Generally Accepted Accounting Principles, inventory can measure both of LIFO (last in, first out), also FIFO (first in, first out). But, what is LIFO and FIFO?

- The meaning of FIFO method, inventories which are bought first, they are sold first. Most of companies use this type of inventory costing method, because in this case, they can oversee all sales operations more closely, that’s why FIFO is considered as a best method of theoretical review. Mentally, companies and organizations mostly prefer to FIFO method, because if the inventory which is first bought, it must be sold firstly, if it is not sold, in this case it can be damaged.

According to FİFO, company must be subtract inventory which is purchased firstly.

- The meaning of LİFO method, inventories which are bought last, they are sold first.

Chapter 2. Main concepts of company accounting

2.1. Meaning of Limited Liability Company

When the business are molded, their business structures have to decide different decisions. One of these decisions is to decide that the firm will be of limited or unlimited company. Limited liability companies are related to the obligations of their possessor, but their obligations are limited with only the funds which they invested or they are liable only the amount of funds invested.

In the other words, the possessors are always liable for the debts and obligations of firms or are liable for a certain percentage of the debts and obligations of firms. This issue depends on the type of business. The business organisations may be unlimited liability, such as sole trader and general partnership. The shareholders of firms and members of businesses arranged as limited liability companies are only liable for the debts and obligations to the amount of stock invested.

We can look over them separately:

a)Limited Liability

What is definition of Limited liability company?

-A limited liability company is a business structure that the members of business cannot be liable for the businesses’ debts and obligations.

The possessor of the firm which is registered as a limited liability company will be safer in the events of bankruptcy. Limited liability means that the possessor’s losses are limited with only their specific shares of investment and cannot be held responsible for losses other than their share of investment. One of the most famous and significant form of limited liability company is a corporation.

The possessors are shareholders of corporation, the shareholder’s liability are only limited with the quantity of funds that they invested. If the business goes bankrupt, the shareholders will not lose all investments in the corporation because they do not held responsible for losses other than their contribution.

Actually, some general partnerships may require their partnership agreement for feeling certain that they are responsible debts of business equal to the amount of fund they contributed. Rather than each partner to have personal liability for the all debts and losses of the organization, the partnership agreement ensure that each partner to have limited personal liability. This liability cannot exceed the value of their capital invested. Thereby, liability is distributed among of partners’ equity in partnership, this means that it is divided by a percentage of value of partners’ capital accounts. Each partner begins to operate business with initial capital which they invest in. Every partner’s capital depends on the profit of the business earned during the year- if the profit of business is high, this means that the partner’s capital interest will increase and the partner may invest additional more capital into the business.

Limited liability company are shaped under proper legislation. It can give various rights and duties to the possessors and is legally separate entitiy from its possessors.

There is lucid difference between shareholders and directors. Individuals and other companies or businesses may be shareholder of the company. In the company, shareholders and directors have different roles and position. The shareholders also called the members of company. Generally, shareholders own business with its shares while directors manage the company.

2.2. The accounting records of LLC

The distinction between shareholders and directors is as follows:

Shareholders

- They are known as members and the first shareholders are called the subscribers.
- They can be simple person or corporate body.
- They have some or all shares in the company.
- Liability is limited with the value of their shares in the company and if the company run into debt, shareholder is defendant only the amount of their share.
- Shareholders can also treat as the directors of company.
- They receive some percentage of profit of company relates to their shares.
- If they are not directors at the same time, they do not interested in daily business activities.
- They have the power to remove and assign directors and their secretaries at any time.
- They have the right to select directors’ power in the company.
- Their voting, dividend, capital rights are based on the Prescribed Particulars added to their shares.

- They have the right to make a decision about changing the name and structure of company, issuing shares, checking the statements, removing and assigning directors, appointing and changing the rights and powers of directors.

Sometimes people confuse the shareholder, stakeholder and stockholder. But we must know that share is the same with stock and thereby shareholders and stockholders are synonymous. However, shareholders and stakeholders are different concepts. Shareholders are persons or corporate bodies who has at least one or small portion of shares in the company, but stakeholders are any parties who has interested in the company and can affect the activity of company.

Thus, shareholders are stakeholders but stakeholders are not always shareholders. Employees, consumers, investors can be stakeholders.

Most limited liability companies are owned by shareholders and this is also known as “limited by shares”. In the other words, the meaning of “limited by shares” is that companies have to at least one shareholder. There is no limit to the number of shareholders in the company, mean that for example, it can has one or one hundred shareholders.

Also some information is necessary for providing about shares, if the company is registered:

- **Share capital** is the number of shares and their value. For example, the limited liability company has 10.000.000 shares and the value of each share is $1. Thus, the share capital of company is $10.000.000. Share capital of company consist of common and preferred shares. Share capital are counted with only its nominal value, there is no importance that the shares’ worth is how much now. For example, if the company sold 100 shares at $70 each some years ago, although their value is $80 today, the company cannot sell its shares $800, it will sell them at $700 again. The share structure of company consist of the types and numbers of shares, and the “share capital” term is sometimes used to express it. For example, the company has an “outstanding share capital” of 700 shares and it has received them for a $7 million, and it is situated in the “share capital” section of balance sheet. In this case, the first use of this term relates to “capital structure”, but the second use relates to “the proportion of equity coming from the sale of shares”. The Collins English Dictionary says that: “ A company’s share capital is the money that shareholder invest in order to start or expand the business”. According to Santander, “ All shares incorporate identical political and economic rights. Each ordinary Banco Santander share corresponds to one vote”

- The name of shareholders
- The addresses of shareholders
- “Prescribed particulars” is the class or type of each share which shareholders own and the rights that these shares give them.

Different class of shares impose different limitations, these are:

1. The share of dividends which every shareholder receive
2. Whether shares can be exchanged for money
3. How many votes that the shareholders can have
4. Voting rights in exceptional cases

The rights of shareholders are determined with the articles of association of company and agreements of shareholders. We said before, the possessors of company are stockholders. If the company is successful, the stockholders will get benefit, because the value of their stock increases. However, if the company does not perform well, the value of stock of stockholders decreases, thus, the they can lose money. Unlike sole traders and partnerships, stockholders do not held amenability for any debts and losses incurred by company.

Directors

- They are also called the company officers.
- They may be simple person or corporate body.

- The company have always at least one director.
- They are minimum age of 16 persons.
- Directors can be shareholders.
- They are assigned by shareholders.
- They held amenability of managing company lawfully and ethically based on Articles of Association.
- Required from them to run business with the rights and duties according to Articles of Association.
- They must to make business successful for benefit of company and its shareholders.
- They receive a salary, if they are shareholders, they will get dividend.
- Shareholders determine their rights and powers.
- They held responsible for preparing annual accounts, annual returns, tax returns of company until statutory deadline.
- They have to paid all company taxes on time.
- Directors held personally liable if they do not uphold their legal duties and responsibilities.
- Also they held amenability for audited annual reports of company.

There are some advantages and disadvantages of limited liability companies.

Advantages of limited liability company are as follows:

- <u>Limited liability</u>: This is the just one of key advantages of limited liability companies. As the name implies, shareholder's liability for the any debts and losses of company is limited to the amount of their investments. In the other words, if the company gets bankruptcy, the personal assets- real estate, bank accounts, cash and any other assets of shareholder are preserved. At the worst supposition , shareholders can lose money equal to amount of investments they put into business.

If the shareholders do not follow certain rules of business management, they will held amenability for criminal behavior.

- Taxation: income of shareholder's company can be treated as shareholder own personal income, thereby is not subject to certain federal taxes for company are liable.
- Limitless ownership: There is no limit to the number of possessors in the limited liability company. Every limited liability company can have one or hundred members and shareholders.
- Flexibility: The shareholder's percentage of ownership is equal to the amount of funds that they put into business in limited liability company. When the business is formed, members create agreement and this agreement determine the percentage of profits and losses relate to shareholders. New shareholders can join the business with putting investment .
- Freedom in management: The limited liability companies do not require to have annual shareholders meeting, grave books requirements, board of directors, however other business types like sole traders and partnerships require them. It can give chance to the shareholders to manage business and their free time effectively. Also this can be the significant advantage of limited liability company.
- Transfer shares: It is easy to transfer shares from one to another possessors. However, it is hard to find some person to buy the business of sole traders and partnerships.
- Raising finance: it is easy to increase finance in limited liability company.
- Separate legal entity: Limited liability company perform as a separate legal entity from its possessors.

Despite all these advantages, there are some disadvantages of limited liability company. These disadvantages are as follows:

- Higher fees: Unlike other business entities such as sole traders and partnerships, limited liability companies have to pay much more fees as limited liability companies. Also, some states require annual renovation fees.
- Financial statements: It is important that limited liability companies have to publish annual financial statements. This means that everyone including competitors can see the statements of limited liability company and how well they are doing. However, there is no requirement to sole traders and partnerships to publish their statements.
- Audit requirement: Limited liability companies' financial statements have to be audited. This means that financial statements of limited liability companies are subject to an independent review to ensure with legal requirements and accounting standards. Thus, this is time consuming and expensive process.
- Share issues: In limited liability companies, it is hard to reduce share capital because share issues are regulated by law. However, sole traders and partnerships can increase or decrease their share capital at any time easily.

Chapter 3. Comparison of international and Azerbaijani accounting system

3.1. Accounting system of Azerbaijan

National Accounting Standards is norms that executive authority bodies confirm.

Actually, in the Azerbaijan accounting standards are similar to international but there are some differences among them. Actually, I noticed before all information about accounting. According to national accounting, accountants use accounts plan. Double accounts plan is used since the Soviet Union, but nowadays three-digit accounts plan- it is more close to international accounting standards.

In Azerbaijan, along with national accounting, tax accounting are widely used by accountants.

The financial result indicates the profit of the company. The economic outcome of economic activity is understood. All profit organizations are an important indicator that describes the activities of the collective. The financial results of organization are the production and financial activity of a certain period due to changes in equity.

Businesses are in the form of profit or loss in business activities to obtain reflected financial results. They include products- property, lands, building and equipment, material wealth, intangible assets and etc. financial results of sales as well as the amount of revenues on activities.

Balance profit means the use – land, building, equipment, property, non-material and other assets the sum of sales proceeds and the sale of off-balance sheet items profit and loss is understood. In this case, the profits from the sale of goods from the sale price and sales and the costs of these products are commercial expense and value-added tax is defined as the difference. Funds received from the sale of goods or value amount paid or sending and financial placement documents calculated. Product sales funds the method of defining farming by the organization for several years and subject to the terms of the concluded contracts. Land, buildings and equipments, low density and often worn items and neglected profit from the sale of assets, export prices and their value as well as their residual values the difference between the applicable fees and the value-added tax.

Gain arising from the sale of goods and other assets funds from the sale and acquisition of these assets. The difference between the costs of sales and the value added tax is determined.

Major of balance earnings of products , works and services sales revenues. Commercial organizations by other sales and non-sales transactions reduces the balance of income. Remaining profit at the enterprise's disposal, balance the difference between the profit and the tax payments made on its account makes it. The specified profit remains at the at the disposal of enterprise and payment of labor reserve fund for public needs, reserve fund, the other party in which the entity can provide advice on the basis of the consumer fund and foundation documents and the establishment of special funds.

The expected profit or loss statement is also used. Its attempt to obtain a venture is of interest to the enterprise, collective investments, increased productivity and employment to encourage them to do so.

Enterprises earn financial results in the business process, which is also case it shows itself as profit and loss generated during the economic year. Finance the results are defined as the difference between the entity's revenue and expenses. Excess of income is increase in property – profit, excess of expenses over income – the loss of property is a loss. Financial results in the period of profit or loss reflect the change in its equity capital – increase or decrease. In international practice, the gain or loss of an economic benefit from the payment or settlement or liabilities that results from the entry or disposal of assets in the entity as well as change in equity is considered to be a loss. Hence, the financial results reflect the final outcome of the entity's production and financial activities.

The law "On Enterprises in the Republic of Azerbaijan" states that the main objectives of the enterprise are economic activities aimed at the acquisition of profit to ensure the social and economic interests of the property owners and labor collectives of enterprises. On the other hand, it should be noted that, in conditions of market relations, the activity of enterprises with free economic subjects shows itself as entrepreneurial activity and its main purpose is to generate profit.

In conditions of market relations profitability of enterprises' economic activity is considered an important economic indicator. Profit as an economic category generalized results of farming, livelihood and labor costs productivity.

Profitability of enterprise in the conditions of market economy and bases on two important functions:

1. The final financial result of the entity's operations is its accumulation volume.
2. Profit on the production and social development of the enterprise is the main source of funding.

3.2. Problems in accounting system of LLC

One of and the biggest problem in accounting system is the difference between the financial accounting and tax accounting. In most of countries in the world, financial and tax accounting issues are regulated with separately legislation. However, both of these areas are always coherent. So that, have a look tax accounting legislation of any country, we see that financial accounting terms are. It includes long-term assets, intangible assets, balance value, depreciation, income, expense, profit and so on. The importance of financial accounting in the tax accounting is that it allows getting wide information about turnover , profit and other indicators of company. Although, tax accounting principles, purposes, and indicators are determined with tax legislation.

In practice, similar and different aspects of financial and tax accounting are observed. The main difference of tax accounting from financial accounting is that tax accounting system are determined by the tax payer. The similar aspects of financial and tax accounting are as follows:

- Accounting standards requirements are regulated by the legislation

- Indicators are measured with monetary unit
- Same accounting unit exist
- Financial statements are prepared regularly
- To document operations are mandatory
- Statement information are for both internal and external users

Most commonly, two main model of financial and tax accounting is applied. The first model are called Europe model. If the country sets up its accounting system based on Europe model, this country's financial and tax accounting are not differentiated. According to Europe model, financial accounting also carries out fiscal duties. Europe model is created in the Russia. One of the basic features of this model is that financial statements are prepared for the purpose of tax authorities.

The second model is English model. According to this model, it conserves different system of financial and tax accounting. The conception of second model is created in the Great Britain. The essence of English model is that balance profit which is determined with financial accounting are different from profit which is determined with tax accounting. USA, Great Britain, Canada, Holland and other countries use this model.

The accounting system applied in Azerbaijan are more compatible to English model. So that, based on accounting rules calculating balance profit is different from profit which is determined according to tax legislation. The reason of creating this difference is related to "About the profit tax of company and organizations" Azerbaijan Law.

Despite all this information, the difference between financial and tax accounting serves the fiscal purposes of state, and also allow tax payers to take double accounting and increase the expenses. That's why this issue must be discussed and found new solutions.

For solving the problem of difference between financial and tax accounting, according to the name, it must remove and they have to be the same. In this case, “Black accounting” is removed and all processes in accounting become transparent.

The second one problems in accounting of Azerbaijan is that ERP- enterprise resource planning is not used widely. Some organizations like BP, Pasha Holding, KPMG, Deloitte, PWC, EY Azerbaijan used ERP in their system. But most of companies, specially limited liability companies use 1C program. This program are coming from The Soviet Union. Limited liability companies records all their information on this program. That’s why, it is hard to change accounting software to them. However, if the limited liability companies in Azerbaijan can change their accounting system to ERP, it affects all the accounting system of country. Because, today accounting system of Azerbaijan is not enough level automatic.

The way of improving accounting system in Azerbaijan and solving all problems depend on changing accounting software.

But what is ERP system?

- Enterprise resource system is the process that company use it to manage and arrange its essential parts. ERP system consists of planning, programming, sales, purchases, marketing, finance, inventory and other branches.

ERP is the software system and companies which apply enterprise resource planning, prepare their own big software for helping purposes.

In the ERP system, every department in the company has its own software, but it can connect other departments software easily. ERP performs as a center system in the organization. Every information is entered in system at a timely basis by users. Also every users can join the system with the own account at any time.

The first ERP system is SAP program which is created by three programmer in the Germany. Main purpose of SAP program is helping to companies to arrange their business information in the one system.

Some companies in Azerbaijan do not want to change their systems to ERP. They think that their old programs is more useful than ERP and it has much more expenses. Actually, in our country, most of limited liability companies prefer to program which is called as 1C. They enter their all information to this program previously and it is hard to them to change program. But companies must know that changing their system to ERP system, they can decrease expenditures. Because of companies do not want to change their systems, ERP system can not improve in Azerbaijan.

ERP is a brief planning and programming for companies, but this definition is not highlighted completely. ERP can be used in most of departments in companies, specially, marketing, management, accounting, human resources, orders and so on. Entering to ERP system, it is possible that to get any information about processes, in turn, it makes achieving data easy. Especially, accounting and sales departments need to use ERP system.

For improving accounting system and solving problems in accounting branches in Azerbaijan, limited liability companies must to elapse to ERP system and automate of accounting process.

Another problem in accounting system of Azerbaijan is about business plan. Business plan- consists of introduction and another two part. In the first part- description of business, in the second part- description of finance is given. While preparing finance part, it is important that preparing must be based on the first part. In the finance part, possessors have to present the amount that they need to realize their business plan, then, possessors have to look what amount they have to this work and in there, they must to notice what amount that they take credits from creditors, banks or investors. On the other hand, equipments, machines and others are presented as finance resources. All these items treat as assets of finance plan, in turn, it is the basis of business plan.

In this situation, building of accounting is very essential issue, because the future of company can be depends on it. In accounting department of every company, the reports of internal control, financial statements and tax reports are prepared. Accounting departments is important for company, because it can get profits and losses in here.

By means of accounting, companies can get information about their current financial position and performance, also determine the steps which they have to do in the future.

Nowadays, in Azerbaijan, the international accounting standards are applied, therefore, skilled personnel, experts and specialists are required.

Because great major of accountants works with old accounting programs. Eliminating of this situation is responsibility of training centers mainly. So that, along with preparing new specialist, they must careful adapting these experts to business environment.

Recently, new companies, specially limited liability companies are un interrupted accrue and requirements to accountants are increased. Previously, one accountant can work in more than one company, cashier also behave as an accountant. However, because of increasing banking operations, even though small businesses need separate accountant. That's why training centers must do essential works for this way and help to grow qualified specialists.

For strengthening of accounting, also proceedings about "black accounting" should be taken. That's why, in our country, "Commission of improving and coordinating labor relations" is creating. Many people are engaged in individual entrepreneurship, but they do not register officially labor relationship in the government bodies. Today informal employment is one of biggest violation of the law in the labor relationship area, also economic activity sphere. Many proceedings should be taken about this problem and it can decrease the percentage of “black accounting” in economy of Azerbaijan.

Generally, in our country, always problems like this exist. But recently, problems begin to solve.

Limited liability companies always increase in Azerbaijan, but also many companies bankrupt.

Conclusion

In conclusion, the problems in accounting system of Azerbaijan are as follows:

1. The differences between national accounting system and international accounting system such as IFRS and GAAP;

2. the problems arising along with financial and tax accounting;

3. Informal accounting in limited liability companies;

4. Old accounting software that is used in limited liability companies and ERP systems are not used.

The way of improving accounting system in Azerbaijan and solving all problems depend on changing accounting software.

But what is ERP system?

- Enterprise resource system is the process that company use it to manage and arrange its essential parts. ERP system consists of planning, programming, sales, purchases, marketing, finance, inventory and other branches.

For improving accounting system and solving problems in accounting branches in Azerbaijan, limited liability companies must to elapse to ERP system and automate of accounting process.

For solving the problem of difference between financial and tax accounting, according to the name, it must remove and they have to be the same. In this case, “Black accounting” is removed and all processes in accounting become transparent.

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