MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
MYKOLAIV NATIONAL AGRICULTURAL UNIVERSITY

Educational and Scientific Institute of Economics and Management

Faculty of Accounting and Finance

Department of Finance, Banking and Insurance

FINANCIAL CONTROLLING

Course of lectures
for applicants for higher education "master"
specialty 072 "Finance, Banking and Insurance" full-time education

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CONTENT

PREFACE

Modern market relations in Ukraine place new demands on the quality of management, the nature of the tasks to be solved, and the methods of solving them. A continuous condition for improving management methods is the full use of internal capabilities of the enterprise, ie the formation of a management system that would be able to timely identify, account, analyze, control, coordinate, adjust, inform senior management about the economy. In this sense, an important factor in such a system is financial controlling.

Financial controlling is a fundamentally new concept in enterprise management, which is able to maintain the internal balance of the enterprise economy and its effective development by forming objective information about costs and revenues, which allows to make optimal management decisions. It provides predictable results and effective feedback, takes enterprise management to a qualitatively new level, integrating and directing the activities of various services and departments of the enterprise to achieve the most important goals. Financial controlling is focused on functional support of financial management.

The purpose of the discipline: formation of theoretical knowledge and practical skills in financial controlling in higher education students.

Tasks of the discipline: study of the essence, goals and principles of financial controlling, organization of financial controlling, mastering the implementation of operational and strategic controlling tools, setting up cost management systems and cost-oriented management, as well as modern methods of performance evaluation and financial diagnostics of companies.

Subject of the discipline: methodological provisions, theoretical and methodological principles and tools for financial controlling.

Competences:

1 Ability to abstract thinking, analysis and synthesis.

2 Ability to communicate in a foreign language.

3 Ability to conduct research at the appropriate level.

4 Ability to identify, pose and solve problems.

5 Ability to make informed decisions.

6 Interpersonal skills.

7 Ability to motivate people and move towards a common goal.

8 Ability to work in an international context.

9 Ability to act on the basis of ethical considerations (motives).

10 Ability to use the fundamental laws of finance, banking and insurance in combination with research and management tools for professional and scientific activities.

11 Ability to use theoretical and methodological tools for diagnosis and modeling of financial activities of economic entities.

12 Ability to apply management skills in finance, banking and insurance.

13 Ability to evaluate the effectiveness of scientific, analytical and methodological tools to justify management decisions in the field of finance, banking and insurance.

14 Ability to apply interdisciplinary approaches in solving complex problems and problems in the field of finance, banking and insurance.

The study of the theoretical foundations of financial controlling is carried out in terms of the following content modules and topics:

CONTENT MODULE 1. THEORETICAL FUNDAMENTALS OF FINANCIAL CONTROL

Topic 1. Fundamentals of financial controlling.

Topic 2. Organization of financial controlling at the enterprise.

Topic 3. Budgeting as a tool for operational financial controlling

Topic 4. Internal (transfer) pricing

CONTENT MODULE 2. FINANCIAL CONTROLLING IN THE ENTERPRISE MANAGEMENT SYSTEM

Topic 5. Evaluation of the effectiveness of financial and economic activities and motivation system

Topic 6. The system of cost-oriented enterprise management

Topic 7. Strategic financial controlling in the system of balanced scores

Topic 8. Financial diagnostics in the controlling system

Topic 9. Harmonization and consolidation of financial statements

Topic 10. Cost control in the financial management system

Topic 11. Internal control at the enterprise

The formation of skills and abilities necessary for practical activities is carried out in practical classes, the topics of which correspond to the content of the theoretical course.

TOPIC 1. *FUNDAMENTALS OF FINANCIAL CONTROL - 1 HOUR.*

Goal: *mastering by students of higher education theoretical principles of financial controlling, study of tasks and functions of financial controlling, types of financial controlling and methods.*

Plan:

1.1 The essence, tasks and functions of financial controlling.
1.2 Subsystems of financial controlling.
1.3 Strategic and operational financial controlling.
1.4 Methods of financial controlling.

Key concepts:*controlling, financial controlling, functions of financial controlling, types of financial controlling, strategic financial controlling, operative financial controlling, methods of financial controlling.*

1.1 The essence, objectives and functions of financial controlling

One of the reasons for the crisis situation at many Ukrainian enterprises is the low level of management. It was the unskilled and erroneous actions of management that brought a large number of businesses to the brink of bankruptcy. A significant factor that determines the wrong management decisions is the lack of effective control systems in domestic enterprises.

Controlling as a system of support for management decisions was first introduced in enterprises in the United States in the late XIX - early XX century. Initially, controlling was focused mainly on financial issues (financial controlling) and was considered exclusively as a functional unit of financial management. Over time, the scope of the controller's competencies gradually extended to marketing, supply, production. In Europe, controlling has been actively implemented since the 70s of the twentieth century.

Today, controlling services operate in almost all large and most medium-sized enterprises.

Controlling- is a special self-regulatory system of methods and tools, which is aimed at functional support of enterprise management and includes information support, planning, coordination, control and internal consulting.

We emphasize that the controlling services do not directly make decisions, but carry out their preparation, functional and informational support and control over implementation. Management information should be provided in a user-friendly form. To this end, relevant information is first processed, summarized, analyzed and provided to users in the form of reports, reports, memos, summaries, recommendations, forecasts, etc.

Financial controlling focused on the functional support of financial management, which determines its content and main tasks.

The main tasks of controlling are clearly stated in the following mission of the controller, developed by the International Group of Controlling.

Controller's mission -organize and support the process of goal setting, planning and management, thus contributing to the achievement of enterprise goals. Accordingly, the controller performs the following tasks:

- ❖ ensures transparency of results, finances, processes and strategies, contributing to higher efficiency;
- ❖ coordinates sub-goals and sub-plans within a single whole and organizes the system of internal reporting;
- ❖ organizes the process of goal setting, planning and management to orient employees who make decisions to the goals of the company;
- ❖ provides collection of necessary data and information;
- ❖ creates and maintains controlling systems.

Contents of financial controlling functions (Fig. 1.1).

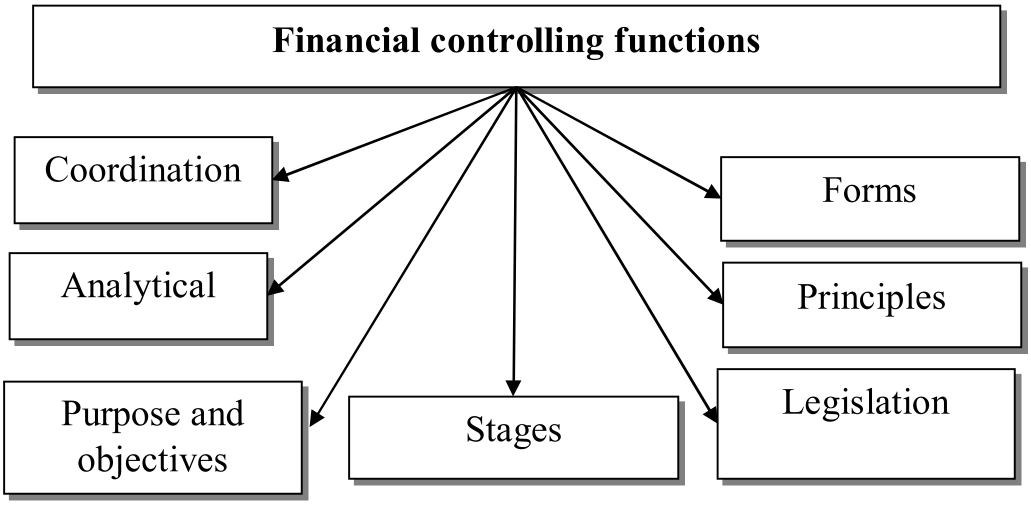

Figure 1.1 - Functions of financial controlling

Coordination function. The function of coordination acquires special importance in the process of planning the financial and economic activities of the enterprise. Performing the function of coordination, financial controlling should ensure the coordination of:

- ➢ goal trees with the company's financial resources;
- ➢ long-term plans with defined goals and financial strategy of enterprise development;
- ➢ operational planning with strategic guidelines;
- ➢ separate budgets of the enterprise and bringing them into a single plan;
- ➢ internal control and planning functions;
- ➢ systems for providing information with the information needs of the enterprise, which arise during the analysis and planning;
- ➢ organizational structure of the enterprise with production needs.

Analytical function financial controlling is the development of formal analytical reports provided to management, the definition of the main control indicators to assess the effectiveness of the enterprise and the degree of influence of various factors on the size of the final result.

Organizational function financial controlling is manifested in:

- ➢ development and improvement of the financial structure of the enterprise in the separation of centers of financial responsibility and the definition of responsible persons;
- ➢ development and improvement of planning and budgeting regulations, ie drawing up a calendar plan of the schedule of implementation of both strategic and

operational planning and budgeting, as well as in bringing these regulations to the responsible persons;
- setting up management accounting, implementing methods of accounting for costs and results by centers of responsibility, products, projects, etc .;
- development and improvement of internal reporting regulations (who, to whom? When? should compile and submit management reports);
- organization and carrying out in due time of control procedures on detection of deviations;
- organization of analytical work in the company's divisions, as well as in its branches and subsidiaries.

Consulting and methodical function financial controlling is implemented in the process of providing consulting support to top management in strategy formation, setting targets, budgeting, developing proposals for improving the efficiency of the enterprise as a whole and the work of its individual units, improving motivation systems and determining personal responsibility for performance. .

Information function financial controlling is the implementation of internal and external financial communication, based on the objectives of the enterprise, organizational structure and current and potential needs.

The main purpose of the information support system is to provide the company's management with the most useful information, which should contain the full range of actual, planned and forecast data on the activities of the enterprise and all its structural units.

The financial communication system should be focused on providing:
- solvency, including liquidity and bankruptcy prevention, credit policy and inventory management policy;
- profitability, in particular to increase efficiency by maximizing profitability indicators;
- maximizing profitability and minimizing the cost of borrowed capital;
- creation of added value, in particular on the basis of maximizing the values of cost-oriented indicators (EVA, CVA, MVA, SVA).

Control function financial controlling is manifested in the process of monitoring the achievement of goals and forecasts of the enterprise (verification of their consistency and realism), implementation of control in the process of drawing up and implementing plans and budgets, calculation of deviations of actual values from planned, target and desired (budget control), control of existing internal and external restrictions and risks of the enterprise.

The Financial Controlling Service does not directly make decisions, but prepares them, provides functional and informational support and monitors their implementation. Moreover, the activities of the financial controller in the performance of the control function is aimed not so much at control as at the formation of incentives for self-control of each employee in the achievement of pre-agreed goals of the enterprise.

1.2 Subsystems of financial controlling.

Modern controlling is very complex and includes many elements that cover all areas of the enterprise: management, personnel, marketing, procurement, sales, finance, business processes. In the latest editions of educational and methodological literature on the problems of controlling, we can see the selection of dozens of types of controlling. In some literature sources you can find such types of controlling as environmental controlling, controlling information technology, controlling security of resources, quality controlling, and so on.

Covering all functional blocks of the enterprise, financial controlling integrates and coordinates the activities of various services to achieve operational and strategic financial goals, including:

- achieving transparency of the financial and economic condition of the enterprise for owners, investors, creditors;
- ensuring the investment attractiveness of the enterprise;
- creation of an effective mechanism for enterprise management;
- the company's use of market mechanisms to attract financial resources.

Objects of financial controlling: financial flows of the enterprise, costs, risks, investment projects, personnel, economic processes, which determines the allocation of types (or subsystems) of financial controlling (Fig. 1.2).

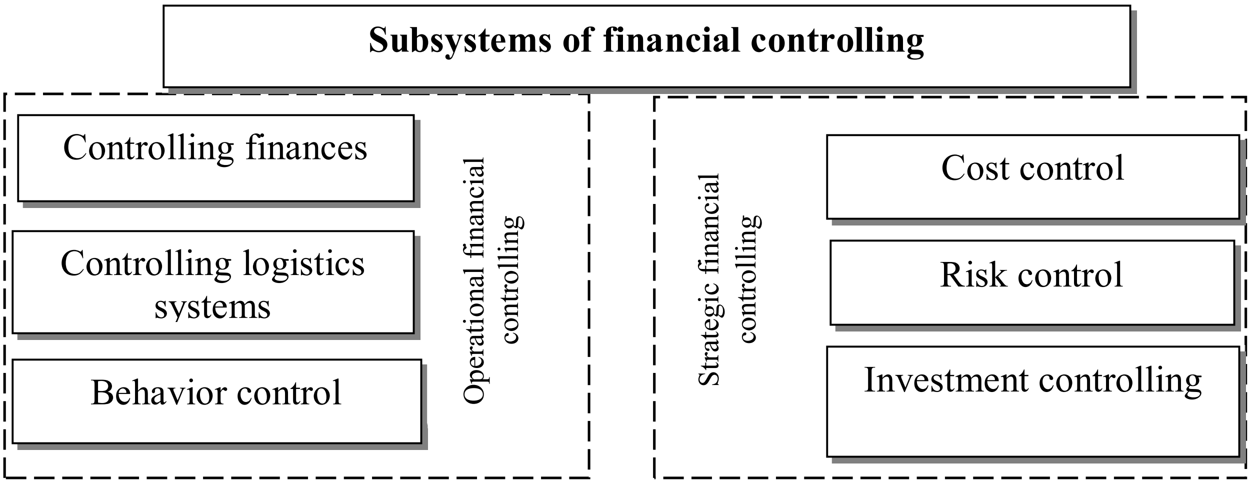

Figure 1.2 - Subsystems of financial controlling

Cost control is perhaps the most important component of financial controlling of the enterprise, as the effective system of coordination, information, methodological support of planning, distribution, accounting, analysis and control of enterprise costs depends on the vast majority of strategic and operational indicators of its activities.

Controlling finances includes a system of coordination and information support for financial planning, operational financial control and liquidity.

Investment controlling is an integration of investment activities and controlling and aims to: optimize investment costs; maximizing profits and increasing the profitability of the enterprise through the operation of investment facilities. The purpose of investment controlling is to achieve the optimal ratio between minimizing significant investment costs and the maximum level of profitability as a result of their implementation.

The object of controlling logistics systems is the system of information and financial flows that accompany the movement of material flows of the enterprise. The purpose of logistics controlling is the coordination of material and related information and financial flows, as well as the optimization of financial resources used to ensure the logistics activities of the enterprise.

A special place in the latest arsenal of corporate finance management is occupied by tools for controlling behavior. Behavior control is aimed at selecting adequate criteria for assessing the effectiveness of management at all levels, as well as developing effective systems of motivation to direct the activities of individuals to achieve the goals of the enterprise.

Risk control is another necessary subsystem of financial controlling in the enterprise. The dynamics of economic transformations increase the degree of uncertainty, which has a huge impact on both the financial models of companies and employee behavior. Continuous identification and quantification of risks, building a system of control and management are important not only for financial but also for all other types of risks (operational, commercial, technological, etc.). An integrated risk management system in the framework of financial controlling localizes possible problems that arise when individual divisions of the company are responsible for the implementation of its function, and not for the result as a whole.

1.3 Strategic and operational financial controlling.

Depending on the goals, functions performed and tools, financial controlling is divided into strategic and operational. The fundamental difference between these areas of controlling is the nature of the objects of strategic and operational planning and, accordingly, control.

Strategic financial controlling is a set of functional tasks, tools and methods of long-term (three or more years) financial, cost and risk management. It is believed that the time horizon of strategic controlling is unlimited.

The Strategic Financial Controlling Service acts as an internal consultant to managers and business owners in developing strategy, strategic goals and objectives. It provides the necessary information to guide management in the management decision-making process.

Strategic controlling defines the goals and objectives for operational controlling, ie sets regulatory limits. Both directions of controlling differ in the covered time horizon. Thus, operational controlling implements its functions in the short term: up to a year. Strategic controlling in modern management is not strictly tied to time limits, although most often we are talking about the medium and long term.

Thus, strategic controlling is focused on the internal and external environment and long-term prospects.

Its objects, and hence controlled values, are indicators such as goals, strategies, potentials and success factors, strengths and weaknesses of the enterprise, opportunities and risks, limits and consequences.

Strategic controlling must ensure the survival of the enterprise, tracking the set development goals and achieving long-term sustainable advantage over competitors. Its main goal is to conduct anti-crisis policy, prevent bankruptcy, and succeed in the enterprise.

Tasks of strategic financial controlling:

- determination of strategic directions of enterprise activity;
- identification of strategic success factors;
- definition of strategic goals and development of financial strategy of the enterprise;
- implementation of an effective early warning and response system (permanent analysis of opportunities and risks, strengths and weaknesses);
- definition of planning horizons;
- long-term financial planning: profit and loss planning, cash flow, balance sheet, key financial indicators;
- long-term management of the value of the enterprise and the profits of its owners;
- ensuring the integration of long-term strategic goals and operational tasks set for individual employees and structural units.

The operational controlling system is used to support operational decisions to prevent a crisis. The purpose of this controlling is to ensure the profitability and liquidity of the enterprise by identifying cause and effect relationships when comparing sales revenue and costs. Focused in general on the internal environment of the enterprise.

Tasks of operational controlling:

- current and operational planning;
- identifying bottlenecks and finding weaknesses in tactical management;
- comparison of planned and actual indicators of control results to identify the causes, culprits and consequences of deviations;
- analysis of the impact of deviations on the implementation of current plans;
- motivation and creation of information systems for making current management decisions.

The main elements of operational controlling are:

- product program planning;
- planning by functional areas of activity;
- sales controlling;
- production controlling;
- supply controlling;
- personnel controlling;
- controlling equipment.

Control indicators, which are used in the implementation of operational controlling:

- profitability;
- productivity;
- degree of liquidity;
- business activity or turnover;
- solvency or capital structure;
- market activity.

Since this type of controlling is focused on short-term results, its tools are fundamentally different from the methods and techniques of strategic controlling.

1.4 Methods of financial controlling.

Controlling services use a large number of methods in the process of performing their functions. Along with some general methodological and general economic methods, specific ones are used. The first methods include such as observation, comparison, grouping, analysis, trend analysis, synthesis, systematization, forecasting.

The main classic specific methods of financial controlling are: ABC analysis, XYZ analysis, SWOT analysis, portfolio analysis, cost benchmarking, etc.

Table 1.1 - Contents of the main specific methods of financial controlling

Method name	Content of the method of financial controlling
Activity Based Costing	Provides for the choice of priority areas to reduce production costs and ways to increase sales through the distribution of costs by their share in the overall structure and differentiation of management methods. Most often, this method is used to optimize the cost of raw materials due to the prevalence of their value in the cost of enterprises.
Standard costing	Is to compare actual costs with regulatory ones in order to avoid unjustified costs; in general, the standard costing procedure can be presented in the form of the following algorithm: preliminary rationing of costs by elements and cost items; preparation of normative calculations; separate accounting of regulatory costs and deviations; deviation analysis; clarification of calculations when changing standards;
Target costing	Target cost management method; provides for the calculation of the cost of the product taking into account the pre-set selling price. This price is determined by marketing research, ie is actually the expected market price of the product or service;
Cost benchmarking	A method of evaluating the strategies and goals of the enterprise in comparison with successful business organizations to determine their place in a particular market; The advantages of cost benchmarking are the lack of need to create their own ways to reduce costs and improve business processes, as well as the ability to combine different methods that have succeeded in reducing costs to other companies.
XYZ-analysis of inventory optimization	During the use of this method, the division of raw materials into groups is carried out depending on the uniformity of its consumption. Today, the implementation of this method is carried out using computer programs, an example of which is SAP ERP.
Portfolio analysis	It is considered as a tool that allows the company's management to assess economic activity and make informed decisions about the feasibility of investing in the most profitable or promising areas, as well as reducing or terminating investment in inefficient projects. It should be noted that portfolio analysis is appropriate for those companies that produce many types of products. In the process of analysis, individual product groups are considered as relevant strategic business units, and each of them is assessed in terms of profitability and riskiness of production.

SWOT analysis -	This is an analysis of the external and internal environment of the organization. Strengths, Weakness of the internal environment, as well as Opportunities and Threats of the external environment of the organization are analyzed. The SWOT analysis methodology involves first identifying strengths and weaknesses, opportunities and threats, and then establishing links between them, which can then be used to formulate the strategy of the organization.

The most common among the specific methods of financial controlling used at the present stage of economic development are ABC-analysis, XYZ-analysis, standard-costing, benchmarking.

Questions for self-control:

1. What is the essence of the term "controlling"?
2. What are the reasons for the need to introduce controlling in domestic enterprises?
3. Define the prerequisites for the formation and development of controlling as an information system.
4. Is it possible to identify the concepts of "controlling", "control", "management accounting"?
5. Discover the essence of the concept of "financial controlling" in a narrow and broad sense.
6. What role does financial controlling play in the financial management system?
7. What are the main functions and tasks of financial controlling?
8. Name the main objects and tools of financial controlling.
9. What is the difference between operational and strategic financial controlling?

TOPIC 2. ORGANIZATION OF FINANCIAL CONTROL AT THE ENTERPRISE - 1 HOUR

Goal: *mastering by applicants of higher education of organizational construction of the system of financial controlling at the enterprise, studying of stages of its introduction and acquaintance with the basic qualification requirements to the financial controller.*

Plan:

2.1. Organizational construction of the financial controlling system
2.2. Qualification requirements for the controller
2.3. Stages of implementation of financial controlling

Key concepts: financial controlling system, financial controlling service, financial controller.

2.1. Organizational construction of the financial controlling system

Building a financial controlling system is based on the following basic principles:

1) the focus of the financial controlling system on achieving the financial strategy of the enterprise;
2) multifunctionality of financial controlling;
3) focus of financial controlling on quantitative indicators;
4) compliance of financial controlling methods with the specifics of financial analysis and financial planning methods;
5) timeliness, simplicity and flexibility of building a financial controlling system;
6) economic efficiency of implementation of financial controlling at the enterprise.

There are several approaches to determining the place of controlling in the organizational structure of the enterprise. The main difference between them is the nature of subordination of the controlling service: directly to the director of the enterprise or the financial director. Given the range of functions and tasks performed by controlling, the controlling department should be included in the structure of financial and economic services of the enterprise, which are subordinated to the financial director. In Europe, the head of the financial and economic department, which is responsible for finance, accounting, production accounting and calculation, often performs both the functions of controller and financier. In American companies, these functions are usually separated.

At large enterprises, the controlling services are almost always independent units, numbering dozens and sometimes hundreds of employees. Having decided to create an independent controlling service, the director must first answer the following questions:

- ❖ Which line of responsibility should be determined by the controller: line or staff?
- ❖ Should there be decentralized units next to the central controlling service?

When deciding on the management structure of the controlling service, the manager must remember that the effectiveness of the controlling service depends not only on the type of organizational structure

2.2. Qualification requirements for the controller

Controller- a specialist who implements the functions and tasks of controlling at the enterprise. The controller performs service functions at the enterprise in the field of economy and management, namely:

- provides transparency on costs and results for the enterprise as a whole, as well as for individual departments and products;
- coordinates the goals and plans of departments;
- organizes work on the creation and maintenance of accounting, focused on management;
- is responsible for creating a methodological and instrumental framework for managing the profitability and liquidity of the enterprise.

Table 2.1 - Requirements for the controller

Requirements	Features
Professional knowledge:	basics of economics and organization of the enterprise; financial accounting (accounting); calculation of costs at the enterprise; investment planning, calculation and analysis; mastery of planning methods and tools; knowledge of controlling methods and techniques: analysis of competitors; analysis of the company's chances and risks in the market; analysis of weaknesses and strengths of the enterprise; product life cycle analysis; analysis of existing and future product structure and enterprise services; forecasting methods
Methodical abilities:	ability to think analytically; ability to think abstractly; ability to explain and prove; ability to learn new things and learn; sociability, knowledge of the basics of sociability in the organization; analytical curiosity; ability to use technical means of communication and presentation.
Behavioral requirements:	not to behave very "seriously" when communicating with others; tolerance, ie tolerance for other opinions and judgments; the ability to present unpleasant facts so that the recipient of information could easily tolerate them (ideally laugh at their failures); not to disclose facts that indicate the failure of departments or employees of the enterprise.

Additional requirements for the strategic controller:	to see and pose problems in conditions of uncertainty; think about the factors that affect the success of the enterprise in the perspective of the payer; abstract from routine activities; evaluate innovations and promote them.

The main functions of the controller.

Controller as a "seller of plans".

The controller does not deal with planning decisions, as he is not responsible for the implementation of plans. However, the controlling service is assigned an initiative that coordinates and organizes the functions, which determines the tasks of employees of this service. In the process of forming strategic plans, the controller acts more as an organizer, who must be able to:

- to adjust the participants of strategic planning to a creative approach;
- summarize the views expressed;
- formulate hypotheses and patterns of behavior developed by participants
- meetings;
- apply in practice the methods and techniques of making and making collective decisions.

Controller as a coordinator in the information system of the enterprise. The purpose of the information system - to provide the necessary information at the right time, in sufficient quantities, in the right place and the right quality.

The task of the controller as a coordinator is to ensure the effective exchange of information within the enterprise.

Controller as a consultant to the company's management. The main task of the company's management is to create the potential for success in the market in the future, which is achieved primarily through the use of strategic planning. The tasks of the controller include methodological and consulting assistance in creating a system of "early detection" of trends and factors that can bring at the stage of their development both benefits and losses. The tools and methods used by controllers to advise management in developing a strategic plan are widely used in the practice of strategic management. These include: competition analysis, market analysis, product life cycle analysis, analysis of weaknesses and strengths of the enterprise (strategic balance), analysis of prospects for diversification of enterprise products, taking into account the dynamics of capacity and market share.

2.3. Stages of implementation of financial controlling

Stages of building a financial controlling system at the enterprise:

1. Definition of the object of controlling. This is a general requirement for the construction of any type of controlling in the enterprise from the standpoint of its target orientation. The object of financial controlling is management decisions on the main aspects of financial activities of enterprises.

2. Definition of types and areas of controlling. In accordance with the concept of building a controlling system, it is divided into the following main types: strategic controlling; current controlling; operational controlling. Each of these pearly types of controlling must correspond to its scope and frequency of its functions.

3. Formation of a system of priorities of indicators,controlled. The whole system of indicators is classified by importance. In the process of such ranking, the most important indicators of this type of controlling are first selected into the system of priorities of the first level; then the system of priorities of the second level is formed, the indicators of which are in factor connection with the indicators of the first level; the system of priorities of the third and following levels is similarly formed.

4. Development of a system of quantitative control standards. After defining and ranking the list of financial indicators that are monitored, it is necessary to establish quantitative standards for each of them.

Such standards can be set in both absolute and relative terms. In addition, such quantitative standards may be stable or mobile. Standards are targeted strategic standards, indicators of current plans and budgets, the system of state or enterprise-developed norms and standards, and so on.

5. Construction of a system for monitoring indicators included in financial controlling. The monitoring system ("tracking system") is the basis of financial controlling, the most active part of its mechanism. The system of financial monitoring is a mechanism developed at the enterprise for constant monitoring of financial performance indicators, determining the size of deviations of actual results from those expected and identifying the causes of these deviations.

The developed monitoring system should be adjusted when changing the purpose of financial controlling and the system of indicators of current plans and budgets.

6. The formation of a system of algorithms for eliminating deviations is the final stage of building financial controlling in the enterprise.

The basic system of actions of managers of the enterprise in this case consists in three algorithms:

a) "Do not take any measures". This form of response is envisaged in cases where the size of the negative deviations is much lower than the expected "critical" criterion.

b) "Eliminate deviations". Such a system of actions involves a procedure for finding and implementing reserves to ensure compliance with targets, targets or regulations. Reserves are considered in the context of various aspects of financial activities and individual financial transactions. As such possibilities the expediency of introduction of the strengthened mode of economy (on the principle of "cutting off superfluous"), use of system of financial reserves and others can be considered.

c) “Change the system of planned or normative indicators”. Such a system of actions is carried out in cases where the possibilities of normalization of certain aspects of financial activities are limited or non-existent. In this case, based on the results of financial monitoring, proposals are made to adjust the system of target strategic standards, indicators of current financial plans or individual budgets. In some critical cases, the proposal to terminate certain production, investment and financial operations and even the activities of individual cost and investment centers may be justified.

The introduction of a financial controlling system at the enterprise will significantly increase the efficiency of the entire process of managing its financial activities.

Questions for self-control:

1. What are the advantages and disadvantages of the controlling service at the enterprise?
2. What service functions in the field of economy and management the controller carries out at the enterprise?
3. Describe what professional and human qualities the controller should have.
4. What financial and economic methods should the controller have to perform the tasks assigned to him?
5. What factors should be taken into account when deciding on the implementation of financial control services in the enterprise?
6. Describe the phases of implementation of financial control services in the enterprise.

TOPIC 3. *BUDGETING AS AN INSTRUMENT OF OPERATIONAL FINANCIAL CONTROL - 1 YEAR.*

Goal: *mastering by students of higher education the essence of budgeting and its main functions, studying the system of budgets at the enterprise, getting acquainted with the setting of the system of budgets at the enterprise and the procedure for compiling them.*

Plan:

3.1 The essence of budgeting and its functions.
3.2 The system of budgets at the enterprise.
3.3 Establishment of the budget system and the procedure for budgeting.
3.4 Reporting on the results of budget execution (reporting).

Key concepts: *budget, budgeting, budget system, master budget, budgeting procedure, reporting*

3.1 The essence of budgeting and its functions.

Budgeting - is the process of developing, agreeing and approving budgets that form a holistic system, as well as monitoring their implementation.

Budget control is an integral part of budgeting. It consists in comparing planned and actual indicators with the corresponding factor analysis. The essence of budgeting is characterized by its functions.

Budgeting functions (Table 3.1).

Table 3.1 - Budgeting functions

Functions	The content of the function
Fixing goals in the monetary expression	Through the formation of budgets, the relevant centers of responsibility, managers, structural units have goals that they must achieve
Prognostication	The results of future operations of the enterprise find their monetary expression in budgets. For the optimal distribution of limited financial resources available to the company, in the process of budgeting is a forecast assessment of the development of external factors. As a result of forecasts, uncertainty is reduced, which is a prerequisite for improving the efficiency of financial decision-making
Allocation (distribution and placement)	Means optimization of distribution and placement of limited factors and financial resources between separate directions of their use at the enterprise (centers of responsibility, structural divisions, etc.)
Coordination	Available and mobilized financial resources should be used to achieve the goals set out in the development strategy of the enterprise. The budget coordinates the activities of individual structural units of the company and balances financial, material resources, as well as available staff
Motivation	Execution of budget indicators is a criterion for the effectiveness of management, individual employees, departments, the company as a whole. Thus, the budget is a tool to motivate those responsible for its implementation to achieve the goals of the enterprise
Control	It involves comparing actual performance indicators with budget ones, analyzing deviations and drawing conclusions about the causes of deviations

Communication	The budgeting process facilitates the establishment of communication and exchange of information between the subjects of economic relations both within the enterprise and outside it

The need to perform these functions necessitates the introduction of budgeting in domestic enterprises.

Typical consequences of lack of budgeting include the emergence of cash gaps, breaches of payment discipline, inefficient allocation of resources, increased inventories, increased weighted average cost of capital.

A number of well-known economists (A. Wagner, K. Show, V. Andrushchenko, V. Fedosov) consider the concept of "budget" exclusively from the standpoint of public finance. It is believed that all the functioning of the budget - from its genesis to mature development - is associated with the existence of the state. There is no budget outside the functioning of the state. Agreeing with the fact that the etymological origin of the term "budget" is closely related to the planning of government revenues and expenditures, we consider it logical to apply this concept in the financial management of enterprises.

If we integrate the main characteristics of the budget into a single whole, we get the following definition: the budget is a plan drawn up for a certain period (short or long term), in which with a high level of detail in quantitative terms set mandatory formalized targets (profit indicators) , costs, cash flows) for individual centers of responsibility (structural units, shops, departments) and the enterprise as a whole.

Main characteristics of budgeting:

- high level of detail;
- formalization in quantitative terms of target indicators;
- internal orientation;
- close integration with deviation control and analysis.

The plan acquires the features of a budget only after a realistic assessment and correction of forecast indicators. Thus, planning informal goals and forecasting formalized quantitative indicators is primary, and budgeting is secondary. The intermediate link between the forecast calculations and the final budget is the process of reconciling existing alternatives.

3.2 The system of budgets at the enterprise.

The result of budgeting is the development of a so-called master budget, or an agreed system of budgets. The term "master budget" (from the English. Master budget) is widely used in English literature to describe the budget system as a set of many individual budgets in their relationship and interdependence.

Master budget: performs tasks of coordination and integration of indicators of different types of budgets.

Master budget is a system of budgetswhich includes:

I. primary budget;
II. group of main budgets;
III. auxiliary (or additional) budgets;
IV. consolidated budget.

Primary budget- the planned values of the factor that most limits the activities of the enterprise are recorded. The type of primary budget depends on the specifics of financial and economic activities of the enterprise, the depth of the financial crisis and the potential for attracting resources. It can be focused on product sales, supply of factors of production or funding opportunities.

Traditional limit factors:

- demand for goods (sales volumes);
- production capacity;
- personnel;
- working capital.

The group of basic budgets includes:

- investment plan;
- plan of financial results (profits and losses);
- liquidity planning (operational financial budget);
- planned balance;
- cash flow plan.

*Budget of financial results*is based on a comparison of forecasts of income and expenses for all activities (for example, sales revenue and cost of goods sold). In the process of developing a budget of financial results, indicators of additional budgets are used, including the production budget, sales budget, inventory budget, material costs budget, etc. The form of the budget of financial results (profit and loss) may coincide with the corresponding form of the report on financial results (form № 2).

The most difficult task in developing a budget of financial results is to forecast the volume of sales carried out in the process of drawing up a sales budget.

*Financial plan. AT*the preliminary financial plan is drawn up for 12 months with a breakdown by individual months. This type of budgeting has a revolving (sliding) nature: at the end of the first month of the planning period begins planning cash receipts and expenditures of the month following the last month of the period, and specifies the targets for other months.

Auxiliary budgets may consist of individual cost items, structural units, centers of responsibility, etc.

Typical support budgets include:

- production budget;
- inventory budget;
- the budget of the wage fund and accruals for it;
- budget of material costs;
- energy consumption budget;
- budget of other expenses, etc.

Production budget -approved forecast of output in physical units. It is based on the sales budget and takes into account production capacity, increase or decrease in inventories (inventory budget) and the size of purchases. The required volume of output is the main indicator of the budget. It depends on the forecast stock of finished products at the end of the period, the projected sales volume and stocks of finished products at the beginning of the period.

Inventory budget- additional budget, which contains information on stocks of materials, finished products in kind and value and the production cost of products. Relevant information is used to plan the results of the financial statements and balance sheet. The size of stocks depends on the characteristics of production and sales (duration of production, duration of storage of raw materials in the warehouse).

Budgets for material costs, wages, and other costs are compiled based on the production budget and information on the production cost of production.

Budget of direct labor costs is based on the production budget, information on the structure of production costs, wage rates.

May contain the following items:

- planned output;
- labor costs per unit of product (hours per unit);
- total labor costs (hours);
- hourly tariff rate;
- the amount of labor costs.

Auxiliary budgets are developed in accordance with the general strategic line of the enterprise and taking into account the characteristics of its individual functional units. Their number depends on the level of detail of planning, the structure of the enterprise. All budgets are closely linked and form a single system of budgets. To ensure the reality of financial budget indicators for most budgets should be made forecast schedules of cash inflows and outflows. An important element of developing a budget system is identifying key indicators for each of the support budgets and agreeing on their values.

Budgets are divided into flexible and fixed.

Flexible budgets -planned calculations of costs and financial results are tied to the volume of production and sales. This category of budgets includes budgets of expenditures that are conditionally variable (vary in proportion to production volumes).

Fixed budgets -indicators do not change for the most part with changes in production. According to the principle of fixed budgeting, the budget of administrative expenses, the budget for advertising, etc. are made.

The budgeting system should help increase the manageability and adaptability of the enterprise to changes in commodity and financial markets; ensuring prompt receipt of information on the need to adjust the strategy and tactics of enterprise management; creating conditions for reducing the level of information asymmetry, increasing transparency and trust between the subjects of financial relations. The end-to-end system of budgets makes it possible to establish strict budgetary control over the receipt and expenditure of funds, create conditions for identifying shortcomings in economic activity, and introduce an effective mechanism to stimulate management at all levels to optimize their activities.

3.3 Establishment of the budget system and the procedure for budgeting.

Characteristics of works and documents that accompany the process of setting up a budgeting system at the enterprise are given in table. 3.2.

Table 3.2 - Setting up a budgeting system

Content of work	Documents	Results
1. Appointment of the person responsible for setting up the budgeting system	Order, which regulates the need, tasks and deadlines for implementation, as well as the powers of responsible persons	Formation of a working group on budgeting
2. Formation of the financial structure of the enterprise	Regulations on the structure of centers of financial responsibility	Separation of financial responsibility centers within the company
3. Formation of a system of key indicators (KP)	Methods of calculating the main performance indicators	System of indicators of activity of the centers of financial responsibility
4. Development of a budgeting scheme that reflects the main business processes of the company and types of budgets (master budget)	Scheme of the budgeting system	Defining the types of budgets needed to perform budgeting functions. Defining the relationship between budgets
5. Development of budget forms of master budget and budgeting calendar	Regulations on the budgeting system. Set of budget forms. Budgeting calendar	Determining the format and information content of each budget form. Compilation of tables, which indicate the names of forms and indicators used in them. Regulations of document circulation
6. The choice of methods for forecasting financial performance	Method	Calculation of forecast indicators
7. Development of methods for filling out budget forms of the master budget	Method	Defining the primary documentation from which data should be taken for budgeting
8. Development of budgets of centers of financial responsibility and for the enterprise as a whole	Set of budget forms	Responsibility center budgets, basic and additional budgets in the specified format
9. Introduction of management accounting	Methods of management accounting	Unification of the format of accounting and budgeting
10. Development of forms of budget control	Budget Execution Report	Defining forms of control over budgeting and execution. Analysis of deviations
11. Integration of the motivation system into the budgeting system	Order on the introduction of the selected system of material incentives	Linking the remuneration of managers to the level of achieving performance indicators and budget execution

It should be emphasized that financial controlling services are not engaged in drawing up separate budgets. Professional competencies of controlling in the context of budgeting are as follows:

- setting up a budgeting system at the enterprise;
- development of internal methodological support of the budgeting process (budget regulations, budget forms, instructions for filling out forms);
- formation of the master budget (number and filling of budgets);
- streamlining information flows in the budgeting process;
- coordination of indicators of separate budgets with strategic landmarks;
- development of a budget resolution;
- coordination of indicators of separate budgets (coordination);
- control and analysis of budget execution;
- organization of adjustment of budget indicators (if necessary);
- documenting the results of budget execution and general budget reporting.

3.4 Reporting on the results of budget execution (reporting).

An integral part of budgeting is budget control and reporting, which are the basis for adjusting plans and activities.

The relationship between budgeting and budget control characterizes the main content of operational controlling, which, in fact, is a systematic comparison of actual performance of the enterprise with the planned and further analysis of deviations.

The range of tasks within the competence of budget control includes management accounting, analysis of deviations, as well as reporting. Operational reports (interpretations) interpret the results of budget execution, provide an assessment of key financial indicators, and formulate proposals that follow from the analysis of deviations.

Control is the basis for identifying the causes of deviations and identify weaknesses in the enterprise. Reporting provides Feed-Back-Information between the controlling and the respective solution carriers. In the normal course of business, reports on the results of budgetary control are submitted to management on a monthly basis. Based on the study of the received reports, the management takes operational measures to adjust the targets and budget indicators, as well as increase the efficiency of activities. An important task of controlling in this regard is to develop a system of motivational incentives to achieve current goals.

Budget control - is a comparison of actual indicators of financial and economic activities with planned (budget) in order to verify their consistency in size and timing, as well as analysis of the causes of deviations in order to make proposals for adjusting budgets or financial and economic activities of the enterprise.

Budget control usually uses a two-tier control system.

Decentralized level- control over the implementation of partial (functional) budgets of structural units of the enterprise, directly carried out by the economic services of these units. At the same time, both individual indicators of the consolidated budget and its components - functional budgets - are controlled.

Centralized level - control over the implementation of the budgets of all structural units, centers of responsibility and consolidated budgets for the enterprise as a whole, carried out directly by the controlling services.

In general, the budget control scheme is as follows:

1) identification of objects of control;

2) determination of normative (planned, budgetary) indicators;

3) determination of the actual values of control indicators;

4) analysis of deviations;

5) evaluation of the results of the analysis of deviations and activities of managers responsible for the implementation of targets.

To organize an effective system of budgetary control at the enterprise should take a set of measures:

—Establishing a management accounting system;

—Checking the compliance of the enterprise with the adopted strategy;

- plan-fact of comparison and analysis of deviations;

—Determination of causes and factors of deviations;

—Development (selection) of a catalog of measures to correct plans and activities;

—Evaluation of proposed measures and initiation of decisions on correction of plans;

—Control the implementation of adjusted plans.

Proper budgetary control is possible only if all transactions involving cash inflows and outflows, income and expenses are accounted for, and the classification and methods of determining individual indicators should be standardized both in planning and in accounting. Identification of actual indicators and determination of deviations are carried out on the basis of management accounting data.

Monitoring and analysis of deviations of actual indicators from the budget can be carried out both in absolute and relative terms. It is carried out both in terms of individual periods and cumulatively, ie taking into account a certain set of reporting periods. Deviations detected in the control process signal the need to adjust plans or financial and economic activities. The reasons for deviations can be grouped into three functional levels: the level of planning, the level of decision-making and the level of implementation. Table 3.3 shows the systematization of the causes of deviations in terms of individual functional levels.

Table 3.3 - Systematization of typical causes of deviations of actual indicators from the budget

Functional level	Typical causes of deviations
Level of planning	➢ erroneous assessment of the development of the external environment; ➢ incorrect forecasts of causal relationships between the company's activities and external factors; ➢ insufficient information support or information processing that led to unrealistic forecasts
Level of decision making	➢ acceptance of erroneous planned alternatives based on previously incorrect proposals; ➢ approval of planned alternatives, different from those that, according to the justification, are the most realistic to implement

Level of implementation	➢ insufficient qualitative and quantitative provision of material, financial and labor resources, which led to the failure of the planned indicators; ➢ weaknesses in the organization of production and economic activities; ➢ insufficient motivation to meet targets

It is advisable to draw up the results of budget control in the form of a report on budget execution.

In operational reports:

- the results of budget execution are interpreted
- an assessment of the main financial indicators is given
- proposals are formulated that follow from the analysis of deviations.

It is advisable to visualize the results of the analysis in the form of diagrams, graphs, figures.

Reporting provides feedback between controlling and relevant decision makers.

The period of preparation of reports on the results of budget control depends on the specifics of the enterprise and the type of budget analyzed. The system of reports at the enterprise is given in table 3.4.

Table 3.4 - Reporting system at the enterprise

Period	Type of budget (reporting) document to which the report is drawn up	Users	The purpose of the report
Week	implementation budget execution report	director	Making operational decisions
Moon	implementation budget execution report; report on the implementation of the production budget; inventory budget report; other additional budgets; report on financial results in terms of responsibility centers	director, controllers of the head office, heads of departments	making operational decisions, adjusting the pricing system, optimizing the product portfolio, adjusting costs
Quarter	report on financial results; Statement of Cash Flows; balance	director, meeting of the board of directors, controller of the head office	analysis of trends, operational and strategic decisions
Year	report on financial results; cash flow statement, balance sheet	shareholders, meetings of the board of directors	Strategic decision making

Based on the study of the received reports, the management takes prompt measures to correct targets and budget indicators, as well as to improve efficiency. An important task of controlling in this regard is to develop a system of motivational incentives to achieve current goals and budget indicators.

Questions for self-control:

1. What is budgeting and what is its place in financial planning?
2. Explain the basic principles of budgeting.
3. List the types of budgets by planning levels.
4. Identify the benefits of implementing budgeting principles.
5. What types of budgets are developed at the enterprise according to the main classification criteria?
6. Define the sequence of budget planning.
7. What requirements must the budget meet from the point of view of the controller?
8. Identify the relationship between budgeting, budget control and reporting in the framework of operational financial controlling.

TOPIC 4. INTERNAL (TRANSFER) PRICING - 1 HOUR.

Goal: *mastering by applicants of higher education of the essence, necessity and functions of transfer pricing at the enterprise, study of the basic methods of transfer pricing.*

Plan:

4.1 The essence, necessity and functions of transfer pricing.
4.2 Transfer pricing methods

Key concepts: *transfer pricing, transfer pricing, transfer pricing tasks,*

4. 1. The essence, necessity and functions of transfer pricing.

Along with budgeting, strategic planning and performance indicators of business units, an important tool of controlling, which is aimed at coordinating and managing decentralized structural units of the enterprise (or group of enterprises), are internal, or transfer, prices.

The essence of transfer pricing -creating preconditions for the introduction of market mechanisms in relations between individual structural units, centers of responsibility or business units that are part of one enterprise (or concern).

According to P. Horvat, transfer (or domestic) prices arise as a result of the formation of an "imaginary market" within the enterprise or group. The need for internal pricing is due to the decentralized organizational structure of enterprises and the responsibility of the heads of decentralized units for the results of activities and decisions they make.

*As G. Kupper and M. Schweitzer emphasize,*the introduction of a transfer pricing system is justified only in the case of decentralized planning. However, transfer pricing makes sense if there is a transfer of goods, works or services between individual decentralized units of the enterprise, or they are in a state of constant competition for limited resources.

In both foreign and domestic scientific and practical literature, the concept of "transfer prices" has no single definition. Quite often the prices for goods, works, services provided within the enterprise are also called settlement, management or internal.

Transfer price (TC) - *the notional price at which the products (intermediates) or services of one center of responsibility of the enterprise are transferred to another center of responsibility of this enterprise (concern, holding).*

Transfer prices are conditionally calculated indicators. No payments are made for the registration of financial relations between individual centers of responsibility.

Transfer prices can be set for individual intermediates, services, service functions that are traded in the domestic market.

The main goals of transfer pricing:

- ensuring the comparability of the activities of individual centers of responsibility (to compare their contribution to the overall results of the enterprise), motivation;
- providing information for management decisions, including decision-making on outsourcing, internal or external sales;

- implementation of internal subsidies (if necessary) - the transfer of resources or profits from one center of responsibility to another;
- ensuring the financial independence of individual centers of responsibility and decentralization of management;
- tax optimization.

An important task of transfer pricing is to reduce the information asymmetry between the participants in economic relations within the enterprise and help reduce conflicts of interest between the management goals of individual line units and the targets of the enterprise.

As a controlling tool, transfer prices should stimulate management at all levels to make optimal decisions in terms of improving the efficiency of the enterprise as a whole, rather than individual structural units or sectors.

Transfer pricing functions:

To internal functions:

1. determining the results of individual centers of responsibility (structural units);
2. coordination of the activities of decentralized structural units (centers of responsibility);
3. calculating the cost of certain types of finished products (or intermediate products);
4. development of management incentive system;
5. intensification of internal competition.

External functions:

1. tax optimization;
2. determination of results of activity for external users;
3. justification (calculation) of selling prices;
4. transfer of capital from one economic structure to another.

Thus, we can distinguish two systems of pricing.

Under the first systeminternal prices affect the performance of individual centers of responsibility, which are part of one legally independent enterprise and do not regulate the performance of the enterprise as a whole. In this case, the prices are neutral in relation to the tax burden of the entity.

Another transfer pricing systemis introduced within the association of enterprises belonging to one holding company or concern. Under this system, domestic prices are a tool for "pumping" profits from one entity to another, and therefore directly affect the financial results and tax burden of individual enterprises.

Basic principles of building a transfer pricing system:

- focus on achieving long-term goals;
- ensuring the implementation of the maximum number of transfer pricing functions;
- validity and comprehensibility of prices for persons responsible for making management decisions;
- simplicity and transparency of installation;
- timeliness of identifying and bringing to the attention of decision-makers;
- resilience against deficits in information provision and promoting information transparency of individual sectors regarding the situation with costs, capacity, resource use, etc .;
- close integration with management accounting.

When introducing transfer pricing, it is necessary to determine the range of officials whose competence should include setting transfer prices.

Among the possible options for the distribution of these competencies should be identified as follows:

- controlling service (centralized version);
- controlling service and management of relevant structural units or centers of responsibility (mixed version);
- management of relevant structural units or centers of responsibility (decentralized version).

Stages of the algorithm for forming the transfer pricing policy at the enterprise:

1. Collection of information and detailed analysis of the company.
2. Definition of controlled transactions.
3. Analysis of the parties for "connectivity".
4. Functional analysis.
5. Choice of transfer pricing method.
6. Formation of the company's transfer pricing policy.

The first stage is to determine the necessary sources of information for the formation of transfer pricing policy of the company. This is necessary for the application of the method of comparative uncontrolled price (analogues of sales), which according to domestic law is a priority for use. Analyzing information about a company's activities can also help identify tax and commercial opportunities that were not previously identified.

Such sources of information are:

- the company's charter and information on executives, list of related parties (in accordance with Ukrainian legislation);
- contracts for the supply of goods (services) and certificates of conformity of goods (services);
- trademark agreement, other license agreements;
- information on the formation of purchase and sale prices for goods (services);
- rules for granting discounts;
- financial and accounting data of the company;
- cargo customs declarations (if there is a border crossing), as well as consignment notes with data on prices of goods (services);
- marketing research conducted by the company and / or independent specialized marketing organizations;
- information from the parent company on prices for goods (services) for third parties.

In addition, you should also use financial and other information from published and (or) publicly available publications and information systems, official websites of Ukrainian and (or) foreign organizations to use the method of Comparative uncontrolled price (sales analogues). In order to determine the method that will allow to make reasonable conclusions for the purposes of taxation of income of the parties to the contract, it is necessary to conduct a detailed analysis of the company: its assets, organizational and legal structure, industry, competitors and key characteristics of the market.

4 .2 Transfer pricing methods

Today, three methodological approaches to setting transfer prices (TC) dominate:

1. Shopping centers established on the basis of market prices;
2. Cost-based shopping malls (variable or full);
3. Shopping center on a contractual basis.

Shopping centers established on the basis of market prices.

In the practical activities of enterprises, transfer prices calculated on the basis of market prices are most often used. This is due to the high level of transparency of such prices and the impossibility of manipulating them. Effective use of market prices as domestic is possible with certain prerequisites, in particular:

- a product similar to the one for which the domestic price is set should be in circulation on the foreign market;
- internal structural units that are sellers and consumers of the product concerned should have freedom of choice between domestic and foreign markets;
- there is no synergistic effect: the structural unit that is the supplier has the same production costs for both internal and external sales;
- transactions within the company do not affect pricing in foreign markets.

After choosing the price of the product, which operates on the foreign market, it is necessary to make a number of adjustments related to the terms of delivery of the product, transport costs, indirect costs. If these conditions are met, domestic prices should be equal to market prices. If, for example, domestic prices are higher than market prices, the relevant structural units will not engage in production, but will make appropriate purchases in foreign markets. On the contrary, if domestic prices are lower than market prices, it will be more profitable for production units to sell the product in foreign markets.

In the long run, domestic market prices are an indicator of the profitability of the respective center of responsibility. If in the long run the relevant business unit does not provide a profit (marginal profit), it means that the efficiency of the enterprise as a result of the relevant center of responsibility decreases. Since there is no perfect market that fully meets the above prerequisites, domestic prices based on market ones have their drawbacks. In some cases, they lack the function of coordination.

Cost-based shopping malls (variable or full);

In practice, domestic prices are often calculated on the basis of full cost. The basic idea of this approach is to fully cover the costs of units that are suppliers of semi-finished products to the domestic market. On the other hand, the center of responsibility, which is an internal supplier, does not make a profit, because the entire amount of profit settles in the unit that sells the product to foreign markets. Thus, the method does not solve the problem of fair distribution of profits (value added) between individual segments.

One way to solve this problem is to use a modified pricing method based on market prices. The financial results of the supplier's division are determined on the basis of the reduction of the market price at full cost.

Method of calculating transfer prices on the basis of full costsfocused on making short-term decisions. This is due to the problem of distribution between individual products of indirect costs and the high dependence of total costs per unit of output on production volumes. To determine the transfer price on the basis of full cost algorithm is used:

$$TC = V + F / X, \qquad (4.12)$$

where F - fixed costs;

V - variable costs per unit of output;

X - production volume (in physical units).

As follows from algorithm (4.12), the transfer price per unit of output directly depends on production volumes. Therefore, it can fluctuate significantly in different periods.

Difficulty is noted also the issue of taking into account in the shopping center the value of capital raised by the relevant center of responsibility. Therefore, a significant disadvantage of full-cost transfer pricing is the inaccuracy of calculating total costs for individual products.

*Another problem is related*with the definition of the cost structure of individual business units and the enterprise as a whole. The transfer price includes variable and fixed costs of the supplier, as well as, under certain conditions, part of his profit. For the consumer unit, the cost of the product at the transfer price refers to variable costs.

Shopping center on a contractual basis.

In theory and in practice there is another specific option of domestic pricing - the use of contract prices. Transfer pricing on a contractual basis involves the transfer of competence to agree on a domestic price acceptable to all parties to the heads of individual centers of responsibility. Transfer prices under this approach are the result of negotiations between the leaders of the respective segments. There are two approaches:

- prices are set individually for each transaction;
- prices are set on the basis of agreed principles and methods.

Contract-based transfer pricing is used when the market mechanism for intermediate products is imperfect.

For example, in the case of different costs of sales for external and internal sales, there are several market prices, they change rapidly or the market is monopolized. A significant advantage of this approach is that the representatives of the decentralized units involved in the negotiations have complete information on costs and revenues.

According to a group of German authors (A. Könenberg, T. Fischer, T. Gunther), the main idea of this methodological approach is to reconcile marginal costs and marginal utility of structural units involved in the production process and negotiations to find a solution as close as possible to market conditions.

Pricing in this way guarantees the autonomy of decentralized units and increases responsibility for performance.

Features of the shopping center on a contractual basis:

- strong motivation effect;

- prices depend on the ability of the parties to negotiate and on their starting positions;
- the end result of negotiations may be far from optimal;
- negotiations can provoke a conflict between centers of responsibility;
- significant costs of negotiations (including time).

The range of transfer price adjustments ranges from variable costs to market prices. It is recommended to coordinate the shopping center on a contractual basis with the participation of representatives of the central management, such as employees of the controlling service.

The experience of enterprises with a decentralized decision-making model shows that domestic prices, formed on a contractual basis, do not solve all problems. Thus, if the contract includes a condition not to buy products from "external" suppliers, the domestic market becomes monopolized, and if the market price is less than the direct costs of the supplier, the company suffers losses because it could buy the intermediate product on foreign market. Thus, a necessary prerequisite for using this approach is to give free choice to the supplier: internal or external implementation.

It should also be noted a certain subjectivity of the contractual approach to transfer pricing. The price level largely depends on the personal qualities of the heads of departments and their ability to negotiate. Like any contractual form of decision-making, the transfer pricing procedure is a process associated with significant loss of time and risk of conflict between department heads. In addition, the method is characterized by a high potential to provoke conflicts between the parties. Empirical studies show that this method is much more likely to lead to conflict situations than methods based on market prices or costs1.

The main reason for conflicts of interest during transfer pricing is that at high transfer prices, the responsibility center, which is the supplier of the product, benefits. On the contrary, low transfer prices create advantages for the center of responsibility, which is the consumer of the intermediate product.

Practice shows that none of the generally accepted methods fully satisfies all participants in financial relations and does not perform all the functions of transfer pricing. In the scientific and practical literature we find recommendations for a partial solution to the problem of transfer pricing. These recommendations often boil down to using a double transfer rate.

However, even if the company establishes a transfer pricing process that is fully consistent with the company's corporate strategy, there are several problems that may arise for the company's management, namely:

1) the problem of adequate assessment of the performance of various business segments of the enterprise;

2) personal conflicts over the transfer prices between different managers of the company;

3) unbalanced interdependence between different divisions of the enterprise;

4) establishing the correct price level for goods and services sold and purchased within the company.

Table 4.1 - Advantages and disadvantages of transfer pricing methods

TC method	Calculation base	Benefits	Disadvantages
Shopping center based on market price	Market prices	Shopping centers are used to select suppliers and buyers; are key to assessing the activities of the structural unit; delegation of pricing decisions to line managers, broad autonomy in making managerial pricing decisions.	The method is effective only when there is a market for intermediate products; operates with high decision-making autonomy within the company.
Double transfer pricing	The buyer receives goods or services at a cost-based price, and the seller reflects the profit at market price	The buyer receives the goods at a price below market, which helps to show higher results activities; negative impact is offset by the overall performance of the company.	It is difficult to track settlements in the company (requires a well-established system of internal control).
Cost-based shopping center	Variable and fixed costs of the enterprise	Preference is given to the share of a separate unit in the overall result of the company, rather than the result and activities of individual structural units.	Through the distribution of costs - the transfer price is calculated based on the professional judgment of the line manager; divisions - buyers do not know the final price until the end of the production cycle; dependence of price on total demand.
Negotiable price of the shopping center	Negotiable price for goods and services	Opportunity for structural units to reach mutually beneficial agreements.	May lead to a conflict between the structural units of the enterprise.

Questions for self-control:

1. What is a "transfer price"?
2. What basic factors can be taken into account to set transfer prices?
3. Discover the essence of the transfer pricing process.
4. What are the methods of calculating transfer prices?
5. Give a comparative description of methods of calculating transfer prices.
6. What are the features of the implementation of internal control functions in the application of transfer pricing methods?

TOPIC 5.EVALUATION OF FINANCIAL AND ECONOMIC ACTIVITY AND MOTIVATION SYSTEM - 2 HOURS.

***Goal:** mastering by higher education students the basics of diagnostics of the financial condition of the enterprise, acquaintance with the basics of the standard-costing system and its application to assess the efficiency of production.*

Plan:

5.1 Diagnosis of the financial condition of the enterprise.
5.2 Standard-costing system and its application to evaluate the efficiency of production.
5.3 Task motivation systems.

***Key concepts:**financial condition, diagnosis of financial condition, external diagnostics. Internal diagnostics, tools of financial diagnostics.*

5.1 Diagnosis of the financial condition of the enterprise.

One of the most important tasks of the financial controlling service at the enterprise is the organization of operational controlling and diagnostics of the financial condition of the enterprise.

Diagnosis of the financial condition of the enterprise- the ability to assess the property status, solvency, liquidity, financial stability, business activity and profitability of the enterprise. Financial analysis is carried out on the basis of indicators of financial reporting of the enterprise using the methods of horizontal analysis, vertical analysis, trend analysis, analysis of relative indicators and more.

The financial condition of the enterprise is the result of the interaction of all elements of the system of financial relations of the enterprise; it is determined by a set of production and economic factors and is characterized by a system of indicators that reflect the availability, location and use of financial resources. The higher the volume of production and sales of products (works, services) and lower the cost of products (works, services), the higher the profitability of the enterprise, and, consequently, the more stable its financial condition. At the same time, it should be remembered that the company's financial activities are also aimed at ensuring the systematic receipt and efficient use of financial resources, compliance with payment discipline, effective credit policy, achieving a rational ratio of own and borrowed funds,

Diagnosis of the financial condition of the enterprise involves a systematic and comprehensive assessment of its activities using various methods, techniques and methods of analysis. This allows a critical assessment of the financial results of the enterprise both in statics and dynamics, creates the preconditions for identifying problems in financial activities and ways to effectively use financial resources, as well as their rational allocation.

The main tasks of diagnosing financial condition:

- study of theoretical bases of financial diagnostics;
- general assessment of the financial condition of the enterprise (assessment of the composition and structure of sources of financial resources, analysis of sources of own and borrowed funds, analysis of accounts payable; assessment of the

composition and structure of assets, their condition and promotion, analysis of fixed and working capital, receivables);
- analysis of market stability of the enterprise;
- analysis of financial stability (analysis of its absolute and relative indicators, assessment of the stock of financial stability);
- solvency and liquidity analysis;
- cash flow analysis;
- analysis of the efficiency of capital use (analysis of profitability, turnover of working capital, study of the effect of financial leverage);
- assessment of the creditworthiness of the enterprise;
- assessment of production and financial leverage;
- analysis of business activity of the enterprise;
- forecasting the financial performance of the enterprise;
- analysis of the financial condition of insolvent enterprises and search for ways to prevent bankruptcy;
- strategic analysis of financial risk and finding ways to reduce it.

Solving these problems contributes to improving the management system of the enterprise, improving its economic market position, financial stability, solvency and liquidity.

Depending on what information is used in financial diagnostics, what are the purpose and objects of research, the subjects of use of the results of diagnostics, there are two types:

❖ **external diagnostics**- based on reporting data to be published; the basis of the analysis is a rather limited piece of information about the activities of the enterprise.
❖ **internal diagnostics** - uses all reliable information about the state of affairs of the enterprise, which has only a certain number of people, usually the management of the enterprise and its divisions.

It is possible to define a method of financial diagnostics as system of theoretical and cognitive categories, scientific tools and regulatory principles of research of financial activity of subjects of managing.

The following tools are used in the diagnosis of financial condition:

➢ *Absolute, relative and average values.* Economic phenomena studied in financial diagnostics have quantitative certainty, which is expressed in absolute and relative terms.
➢ *Index method* based on relative indicators, which express the ratio of the level of this (research) phenomenon and the level of a similar phenomenon, taken as a basis. Any index is calculated by comparing the studied and baseline values.
➢ *Comparison* - is one of the ways to study objects and phenomena in nature, society, economy. Comparison is the oldest and most common method of diagnosis. Each indicator and each figure obtained in the analytical study is relevant only in comparison with known indicators and figures.
➢ *Grouping* - is an integral part of almost any economic study. It requires determining the classification of phenomena and processes, as well as the causes and factors that cause them. Grouping is the selection of qualitatively

homogeneous types, groups with essential features from the set of studied phenomena.

- *Enumeration of indicators*. In the scientific literature, this method of diagnosis is distinguished separately. It is used to make comparisons. . Indicators are always adjusted and recalculated when analyzing the implementation of the plan, the dynamics of several years (other periods of time), two companies, taking into account changes that occurred during the transition to market relations, when analyzing the impact of the price mechanism, inflation.
- *Speaker series* - it is a series of numbers that characterize the change in values over time. Analysis of the dynamics of indicators makes it possible to identify and study patterns, trends in the development of phenomena.
- *Analytical tables* It is impossible to conduct financial diagnostics without analytical tables. Tables are widely used to illustrate the methodology of analytical calculations, the results of the analysis, grouping of indicators and identified reserves.
- *Graphic way* is a means of studying economics. Graph in financial analysis is a means of illustrating economic processes, a generalized picture of the state and development of the studied economic phenomenon or phenomena, allows you to clearly explore economic trends and relationships.
- *Study of the relationship of indicators*. Carrying out financial diagnostics requires an appropriate sequence of studying economic indicators.

In the process of financial diagnostics, first of all it is necessary to compare the data presented in the financial statements of the enterprise for several years, in particular:

- compare absolute indicators;
- analyze the percentage changes in absolute indicators, compared to previous and base periods;
- calculate the share of each item in the balance sheet and study the dynamics of this share by periods of the enterprise.

When comparing assets and liabilities, special attention should be paid to the analysis of the capital structure (ratio between own and borrowed funds) and property (ratio of non-current and current assets) of the enterprise.

One of the most important tasks of financial diagnostics is to determine and analyze the company's profits. Profitability indicators are used for profit analysis.

Return on equity characterizes the profit per 1 UAH. equity:

$$P\ vz = Pr / VK, \quad (4.1)$$

where Pr - the amount of net profit of the enterprise for the reporting period;

VK - the average value of equity of the enterprise for the reporting period.

The return on equity characterizes the efficiency of the company's own funds. It is especially important for business owners: the higher the return on equity, the greater the benefits the company brings to its shareholders.

The value of the rate of return on long-term borrowed capital indicates the effectiveness of long-term investment in the company, regardless of the source of their formation:

$$P\ k = Pr / DC \quad (4.2)$$

where DC - long-term capital of the enterprise.

The amount of long-term capital of the enterprise can be determined by the formula:

$$DK = VK + Zd = P - Zk \quad (4.3)$$

where: Zd - long-term loans;

P - the result (currency) of the balance sheet;

Zk - short-term (current) debt.

The long-term capital of the enterprise can also be considered as the sum of fixed assets and the part of current assets that are financed from long-term sources:

$$DK = OZ + (A\ ob - Zk) \quad (4.4)$$

where: OZ - the cost of fixed assets;

And about -the amount of current assets

To ensure the financial stability of the company, it is essential that the amount of working capital be positive, ie that short-term sources of funding are used exclusively to meet the current needs of the company in financial resources, and not to finance non-current assets.

Profitability ratio characterizes the share of profits in the income of the enterprise:

$$Rl = VPr / D * 100 \quad (4.5)$$

where VPr - gross profit from sales;

D - income from sales.

Important indicators that characterize the efficiency of the enterprise, are turnover.

The rate of capital turnover (OK) shows how many times over a period of time the company's capital has turned into money or, conversely, the income that brings each hryvnia of capital.

$$OK = D / K \quad (4.6)$$

where K is the average value of the total capital of the enterprise.

The turnover of capital of the enterprise is affected by the turnover of fixed assets and the turnover of working capital. The turnover ratio of fixed assets (K vol.oz) and own working capital (K vol. Vok.) Is determined by the formulas:

$$To\ ob.oz. = D / OZ \quad (4.7)$$

$$To\ ob.vok. = D / (Aob - Zk) \quad (4.8)$$

The analysis of working capital turnover can be made more detailed by calculating the turnover of each group of assets that are part of current assets, in particular, inventories, receivables, work in progress, finished goods and more. The ratio and period of inventory turnover can be calculated by the formulas:

$$K\ ob.z = D / Z \quad (4.9)$$

$$T\ ob.z = Z * T / D \quad (4.10)$$

where: K ob.z - inventory turnover ratio;

C - the average cost of inventories for a certain period;

T ob.z - the period of one turnover of stocks;

T is the number of days in the period under analysis.

The higher the turnover of inventories, the less inventory the company needs to obtain a certain amount of income. The ratio and period of turnover of receivables is calculated by the formulas:

To ob.dz = D / DZ (4.9)

T об.дз = ДЗ * Т / Д = Т \ К об.дз (4.10)

where: K ob.dz - the turnover ratio of receivables;

DZ - the average value of receivables;

K ob.dz - the period of one turnover of receivables;

The shorter the period of turnover of receivables, the faster the company receives money for products shipped to customers, which has a positive impact on the financial condition of the company.

The main indicators of solvency are the coverage ratio, quick liquidity ratio, absolute liquidity ratio.

The coverage ratio characterizes the company's ability to cover its short-term liabilities from the most easily realized part of assets - working capital:

Kp = A ob / Zk (4.11)

The optimal value is traditionally considered to be not less than 1-2, but the optimal value may vary depending on the industry affiliation of the enterprise, the structure of its stocks, the form of payment for goods and more. An increase in the coverage ratio is a symptom of the existence of excessive inventories of current assets, and a constant decrease in the ratio means an increasing risk of insolvency.

The quick liquidity ratio characterizes the ability to quickly (up to 3 months) to repay short-term debt:

Kshl = (Aob-Z) / Zk (4.12)

The value of the quick liquidity ratio is not lower than 1. However, in retail trade it can be reduced to 0.4-0.5, as inventories in trade are highly liquid, ie can be quickly converted into money.

The absolute liquidity ratio shows the share of short-term liabilities that the company can repay immediately without waiting for the receivables to fall and the sale of assets:

K al = (GK + Fk) / Zk (4.13)

Where GK - cash and cash equivalents;

FC - highly liquid short-term financial investments.

The value of the absolute liquidity ratio of at least 0.1 is considered normal. At the same time, too high a value of the indicator indicates inefficient use of funds.

In addition to these ratios are also calculated indicators of the level of immediate debt coverage, the level of coverage of short-term debt and total liquidity,

Rnp = HPM / (TB + TP) (4.14)

where: RNP - level of immediate debt coverage;

NRM - the value of immediately sold property;

TV - urgent debts;

TP - urgent cash payments;

Rpk = NRM \ (Zk + Zs + Pk) (4.15)

where: Ppc - level of coverage of short-term debts;

NRM - the value of quickly sold property;

Zk - short-term debt;

Zs - medium-term debt;

PC - short-term cash payments;

$$Рзп = Свмр \backslash (Зк + Пк) \quad (4.16)$$

where: Rzp - the level of total coverage;

Svmr - the amount of free property and reserves.

In addition to the solvency ratios, determine the special indicators of financial stability of the enterprise, which characterize the level of independence from external sources of funding. The most important among them are the coefficient of autonomy and the coefficient of maneuvering of own funds.

The coefficient of autonomy characterizes the level of independence of the enterprise from external sources of financing:

$$Ka = VK / P \quad (4.17)$$

It is desirable that the value of the coefficient of autonomy exceeds 0.5, otherwise the company may have difficulty repaying debts. However, too low a value may indicate that the company does not trust creditors or simply irrationally uses its own funds where it was possible to raise borrowed funds.

The coefficient of maneuverability of own funds shows their share invested in working capital:

$$Km = (Aob - Zk) \backslash Vk \quad (4.18)$$

It is important that this ratio is positive, ie that all fixed assets are financed exclusively from long-term sources and some of the own funds remain for the formation of working capital. Too low value of the coefficient of maneuverability of own funds indicates that all own funds of the enterprise are invested in fixed assets and have low mobility. Too high a value of the indicator may indicate wasteful use of expensive own funds, irrational policy of commercial credit. Therefore, the optimal value of this indicator depends on the specifics of the industry and the enterprise.

Debt ratio and index of financial tension on the basis of which you can analyze the level of debt of the enterprise is determined by the formulas

$$Kz = Z / VK \quad (4.19)$$

$$I = Z / P \quad (4.20)$$

where: C - the total amount of borrowed capital of the enterprise.

To find out the efficiency of shareholders' investment in their capital, they use special pranks, the most important of which is the ratio of price and profit per share

$$Кц / пр. = Ca / Pa + (Ca * N)/ P \quad (4.21)$$

where: C - share price;

Pa - earnings per share;

N -number of shares in circulation.

The lower the ratio of price to earnings per share, the more profitable to invest capital in shares of the company.

For shareholders and investors who want to invest in the company's shares, it is important to know the amount of own funds per unit share:

$$K = VK / N \quad (4.22)$$

The more own funds at the bottom of the share, the greater the real value of shareholders' investments.

The given list of coefficients and indicators is not exhaustive and can be supplemented. To obtain accurate analytical information, it is necessary to consider the balance sheets of the enterprise for at least 3-5 years, using the maximum available information.

Assessment of the economic potential of the enterprise is carried out on the basis of assessments of the property status of the enterprise, the effectiveness of its financial and economic activities, assessment of financial condition.

Assess the property status of the enterprise possible on the basis of determining the amount of economic resources available to the enterprise; cost of fixed assets; wear factor, etc.

Evaluation of the effectiveness of financial and economic activities characterize such key indicators as:

- profitability, profitability of production and sales and profitability of ordinary activities of the enterprise, return on assets;
- dynamics of activity (growth rate of income from sales) and cash flow;
- market and investment activity (share value, return on shares, stock quotation ratio).

Assessment of financial condition determined on the basis of indicators of liquidity, solvency, financial stability and stability, business activity:

The analysis of all the listed indicators should be carried out in dynamics to calculate rates of change of their value for the analyzed period.

5.2 Standard-costing system and its application for evaluating the activities of the enterprise

To ensure the effectiveness of cost control use the normative method of accounting and costing. The basis of this method is the accounting of costs in accordance with applicable standards and accounting for deviations from these standards, as well as accounting for changes in standards.

In foreign practice, the standard-cost method is almost analogous to the normative method of accounting and costing. Both the domestic normative method and the standard-cost method provide for: cost rationing; preparation of normative calculations; accounting for regulatory costs and deviations from the norms (by places of origin and centers of responsibility); analysis of deviations and making appropriate management decisions. The main differences between these accounting methods are that:

- according to the standard-cost system, changes in cost norms are not taken into account;
- deviations from the norms of costs under the standard-cost system are accumulated in special accounts of deviations and at the end of the reporting period are written off, as a rule, at cost of goods sold;
- domestic normative method involves operational documentation and analysis of deviations from the norms, and when using the standard-cost method deviations from the norms are determined by calculation and analyzed after a month, usually a month.

Regulatory (standard) costs- are the costs of production of certain products, the value of which is determined on the basis of reasonable standards, standards, technological maps and engineering calculations. Most often, standards are set for the cost of materials, wages, overhead costs, and so on.

There are the following main types of norms (standards) of costs (Fig. 5.1):

theoretical standards - these are the cost standards under ideal conditions of the enterprise (continuous operation of equipment in three shifts, work of employees without loss of working time, waste-free use of material resources, etc.);

basic standards, they are installed for a long time (up to five years). Basic standards are used as a basis for studying the dynamics of economic indicators in the enterprise (productivity, return on assets, etc.);

current standards - these are standards that reflect the costs required for the manufacture of products in a particular reporting period under the real conditions of the enterprise (qualifications of employees, the level of wear of equipment, existing technology and organization of production).

The main purpose of accounting and calculation of regulatory costs - prompt detection of deviations of actual costs from the established standards, their analysis by causes and places of origin, the formation of information for appropriate management decisions.

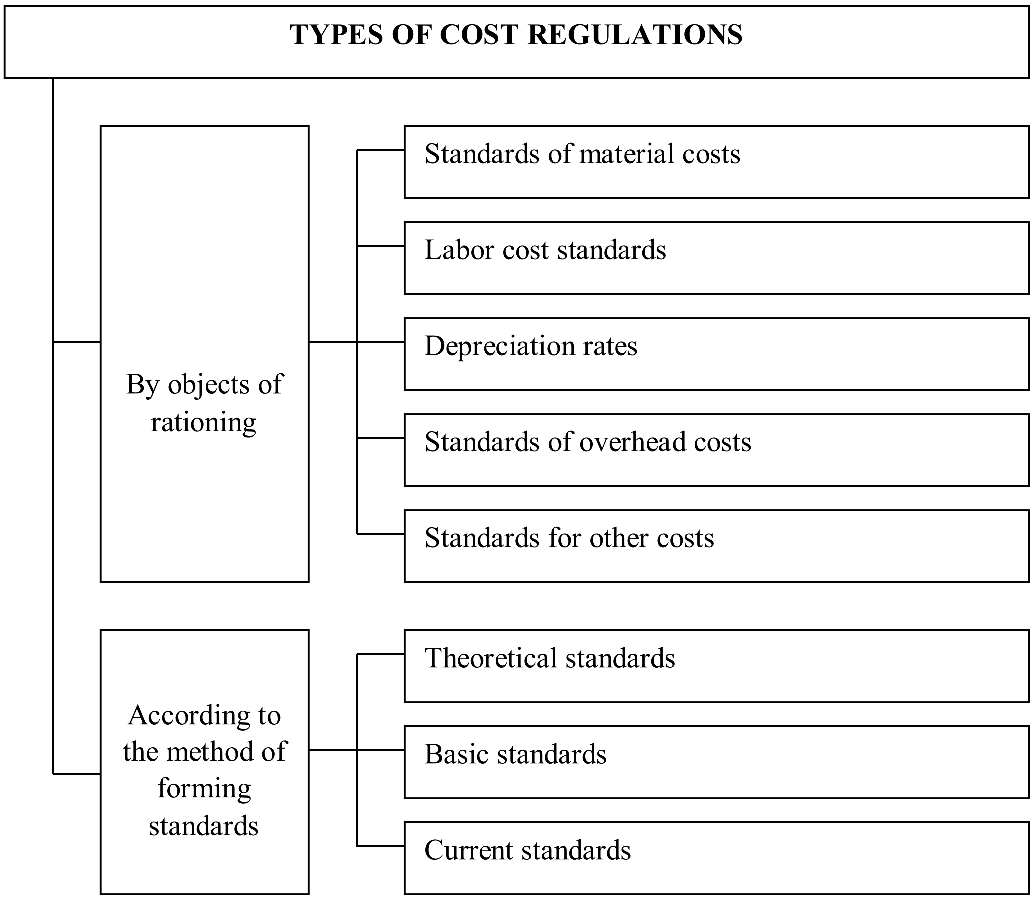

Figure 5.1 - The main types of cost standards

The system of accounting and calculation of regulatory costs should be used in enterprises where production processes are often repeated and where there is a clear relationship between input resources and output.

The system of accounting and calculation of regulatory costs provides for:

- development and establishment of standards for costs of processes, operations for the production of a unit of production (direct material costs, direct labor costs, production overheads, etc.);
- drawing up a card (letter) of the standard cost of a unit of production;
- accounting for actual costs with the simultaneous allocation of regulatory costs and deviations from standards;
- analysis of deviations of actual costs from regulatory;
- making the necessary management changes in the activities of the enterprise or its structural units or in the cost standards.

The system of accounting and calculation of regulatory costs allows:

- determine the amount of expected costs of production and sales, calculate the unit cost of production at regulatory costs;
- make management decisions regarding product prices;
- control costs (based on information about deviations of actual costs from standards);
- evaluate the work of structural units of the enterprise;
- to manage costs.

Substantiation of standards of production costs is carried out by two methods:

1) on the basis of technical (technological) analysis of production operations, which studies in detail the technological processes of production and the amount of resources spent on their implementation. Based on this, standards for direct and indirect costs (material, labor costs, other direct production costs of overhead costs) are developed for the operation, process, unit of production, order, etc. Substantiating the cost standards take into account the normal level of production at the enterprise, which ensures the implementation of planned indicators of sales;

2) adjustment of actual data on certain types of costs of the enterprise for production operations for previous reporting periods based on a detailed analysis of their composition, removal of unproductive losses, and taking into account changes in the conditions of the enterprise in the planning period (production technology, equipment, range) products, working time budget, etc.).

5.3 Systems of motivation to perform tasks

Ensuring effective and timely adoption and implementation of management decisions is possible only through a coordinated system of motivation. In order to effectively move towards the goal, the leader must not only plan and organize the work, but also to force subordinates to perform it according to the developed plan.

Motivation - is the process of motivating employees to work to achieve the goals of the organization.

Effective implementation of the motivation function requires:

1. Awareness of what motivates the worker to work.

2. Understanding how to direct the individual motives of the employee to achieve the overall goal of the enterprise.

Toolmotivating people to work effectively is a reward. Types of rewards:

1. internal - it is given by the work itself, its effectiveness, content, significance, etc .;

2. external - his employee receives from the organization (salary, promotion, benefits, privileges, etc.).

Classification of motivation:

Depending on the main groups of needs distinguish between material, labor and status motivations.

Material motivation - the desire for wealth, a higher standard of living - depends on the level of personal income, its structure, income differentiation in the organization and society, the current system of material incentives used in the enterprise.

Work motivation arises directly from the work performed by the employee, its content, conditions, organization of the labor process, mode of operation. This is the inner motivation of man, a set of his internal driving forces of behavior associated with work as such. Of course, every employee feels the need to do interesting, useful work, and is interested in career prospects, a sense of respect in the team and significance, if the results of his work are highly valued. In general, work motivation is associated, on the one hand, with the content, usefulness of the work itself, and on the other - with self-expression, self-realization of the employee.

*Status motivation*is an internal driving force of human behavior in the workforce, and is associated with the desire to occupy a higher position, perform more complex and responsible work, work in prestigious, socially significant areas of the organization. In addition, a person has a desire for leadership in the team, the highest informal status, as well as the desire to become a recognized specialist, to enjoy authority.

According to the main methods distinguish between normative, coercive and incentive motivation.

Normative motivation - is the motivation of a person to a certain behavior with the help of ideological and psychological methods of influence: persuasion, suggestion, information, psychological persuasion, and so on.

Forced motivation is based on the use of power and threats to meet the needs of the employee in case of non-compliance with the relevant requirements.

Stimulation - influence not on the individual, but on external circumstances with the help of benefits - incentives that motivate the employee to certain behaviors.

The first two types of motivation are direct, because they have an impact on subordinates, the third - indirect, it is based on the influence of external factors - incentives.

According to the sources of motives distinguish between internal and external motivation.

*Internal motivation*manifests itself when a person, solving problems, forms motives. For example, it may be the desire to achieve a certain goal, completion of work, knowledge, desire to fight, fear.

Based on intrinsic motivation, people act more restrained; they do their job more honestly, spend less energy, better understand tasks and learn more carefully. The internal motivation to act is the result of the interaction of a complex set of needs of the employee, so the task of the manager should be to identify these needs and find ways to meet them.

*With external motivation*influence on the subject occurs from the outside, for example through payment for work, orders, rules of conduct. Internal and external motivations are not clearly distinguished, because in different situations, motives can arise from both internal and external causes. It is very important for managers to know about the existence of these two types of motivation, as it is possible to manage effectively only on the basis of external motivation, but at the same time take into account the possible emergence of certain internal motives.

By focus on achieving the goals of the firm distinguish between positive motivation, contributes to the effective implementation of goals, and negative, prevents this.

The main types of positive motivation include methods of material incentives in the form of personal allowances to salaries and bonuses, increasing the authority of the employee and trust in the team of the payer, assignment of particularly important work and more.

Negative motivation - These are primarily financial penalties (penalties), reduction of social status in the team, psychological isolation of the employee, creating an atmosphere of intolerance and more.

Questions for self-control:

1. What systems of indicators can be used to assess the performance of the enterprise?
2. Discover the essence and characterize the DuPont system.
3. What are the advantages of a system built on key indicators (kpi)?
4. What are the requirements in the kpi system for each of the coefficients?
5. Describe the Model of the mechanism of motivation to work of the personnel of the enterprise.

TOPIC 6. COST-ORIENTED ENTERPRISE MANAGEMENT SYSTEM

Goal:*mastering by students of higher education the essence of the concept of cost-oriented management, study of elements and components of the process of value management, factors. Which affect the value of the enterprise and the stages of implementation of cost-oriented controlling.*

Plan:

6.1 The essence of the concept of cost-oriented management

6.2 Elements and components of the cost management process

6.3 Factors affecting the value of the enterprise

6.4 Stages of implementation of cost-oriented controlling and its practical significance

Key concepts: cost-oriented management, cost elements, cost factors, cost factor.

6.1. The essence of the concept of cost-oriented management

Cost-oriented management(value-based management) is an approach to management aimed at maximizing the shareholder value of the enterprise. The essence of the concept is that the management of the enterprise in the long run should be aimed at increasing the value of the enterprise.

The founders of the concept of value-oriented management are considered to be A. Rappaport, author of "Creating Value for Shareholders" and B. Stewart "In Search of Value".

Despite the controversy between scientists about the indicators to consider when calculating the value of the company, and the essence of cost-oriented management, we can highlight the following: they all believe that cost-oriented management is a special kind of thinking and management culture.

Two main definitions of cost-oriented management:

1) Value Based Management (VBM) is a management approach that provides consistent management of a corporation's value (usually: maximizing shareholder value).
2) Value Based Management aims to ensure the consistency of the following elements: corporate mission (business philosophy); corporate strategy to achieve corporate mission and goals; corporate governance (who determines the corporate mission and regulates the actions of the corporation); corporate culture; corporate communication; corporation organization; decision processes and systems; productivity management processes and systems; reward processes and systems, with the corporate goal and values that the corporation seeks to achieve.

Cost-oriented management consists of three components:

1. The process of creating value (how a company can increase or generate maximum future value).
2. Management for value (management system, change of management, organizational culture, communication, leadership).
3. Measurement of value (assessment of the company's activities is taking into account the likely dynamics of changes in the external and internal spheres of the organization).

Advantages of cost-oriented approach before alternative methods of managing the company:

1. Increasing the value becomes the goal, to achieve which it becomes possible to unite the efforts of all counterparties and make optimal compromises.
2. The cost approach allows to identify key cost factors (ie the same 20% of indicators, which, according to the "Pareto principle", determine 80% of the company's value) and on their basis to create a quality business management system.
3. The cost approach requires constant and complete monitoring of the company's activities, which significantly improves the quality and efficiency of decisions (by providing managers and key professionals really optimal amount, structure and format of information needed for decision-making).
4. The concept of cost-oriented management allows you to optimally combine long-term and short-term business goals by combining indicators of value and economic profit.
5. The use of key cost indicators allows you to determine not only all the points of "growth", but also take into account all the costs and risks of doing business.
6. Company value management involves a system of material compensation of employees, which will be directly "tied" to the amount of value created by each employee of the company (by identifying, planning and controlling key cost factors in the "areas of responsibility" of employees). Such a system of rewards allows to get rid of the so-called "agency problem" (ineradicable in alternative methodologies of business management, the contradiction between the interests of business owners and employees). When the remuneration of employees is "tied" to the relevant key cost factors, they become financially interested in their optimization, and thus - to maximize the value created in their "areas of responsibility", and thus in maximizing the value of the whole company.

The main distinguishing features of the definitions of cost-oriented management are:

- Management system. "VBM is a management tool, a control system, an apparatus used to integrate resources and objectives to achieve the goals of the organization." This definition was given in 1998 by the American economist K. Merchand.

- Approach to management. “Cost-oriented management is a way of doing business or a set of actions that extend the importance of value to the whole company. It's a reliable, disciplined process that underpins all business decisions. " The authors of this approach are American scientists R. Maureen and S. Jarrell.

- Maximization of shareholder value. The purpose of cost-oriented management is to create the highest value of assets or provide these assets with the qualities of the most valuable investments.

Value maximization also determines the vision of the business based on expected results.

6.2. Elements and components of the cost management process

The cost management process has five components:

1. Application of cost thinking in the process of strategic planning. The directions of further development of the enterprise are determined, as well as where and when the value is created, the efficiency of the elements of the value chain and the indicators of the company's divisions are correlated with the indicators of competitors.
2. Application of operational planning to manage the value of the enterprise. The component includes the development and implementation of a system of indicators to monitor current activities. The system of indicators reflects the process of value creation and the contribution of each organizational unit of the enterprise in this process.
3. Management of key cost factors. Simultaneously with the company's strategy, sets of programs are developed to influence the main cost factors.
4. Motivation system that establishes the relationship between reward and achievement of value targets.
5. Means of communication with shareholders, ie the creation of special forms of reporting related to the management of the value of the enterprise.

6.3. Factors that affect the value of enterprises

Cost factor - a parameter that affects the change in the value of the enterprise.

The system of cost factors in large enterprises may contain a large number of factors, the management of which requires significant material costs, so the main goal is to identify key factors.

Key cost factors mean 20% of the factors that, according to the Pareto principle, bring 80% of the value.

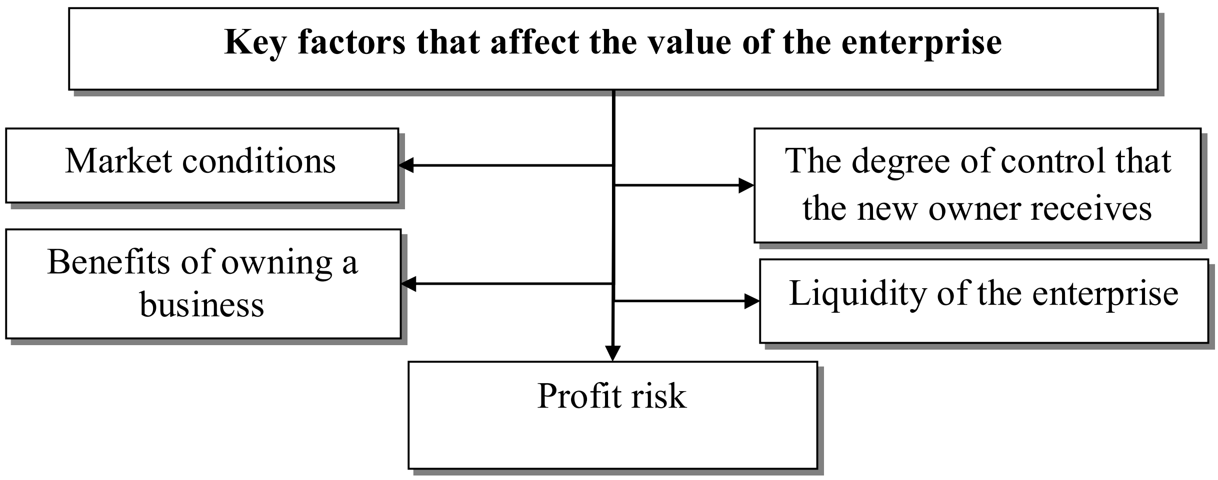

Figure 6.1 - Key factors that affect the value of the enterprise

Levels of cost factors:

I. general factors, first of all return on invested capital;
II. factors that affect the company's profit (revenue and expenses) and areas of investment (types of assets);
III. specific factors (staff qualifications, customer base, etc.);
IV. operational factors (operating costs, prices for certain types of materials, etc.).

Cost factors can be internal and external, financial and non-financial.

Internal factors there are growth rates of sales, net profit and individual items of the statement of financial performance, balance sheet.

External factors there is the level of financial, production, marketing and other types of risks, the level of demand for the company's products, political factors, competition, etc.

Financial factors there is sales, cost, receivables, inventories and other factors.

Non-financial factors there is a business reputation, the presence of a trademark, staff qualifications, etc.

6.4. Stages of implementation of cost-oriented controlling and its practical significance

There are two ways to implement cost-oriented controlling in the enterprise:

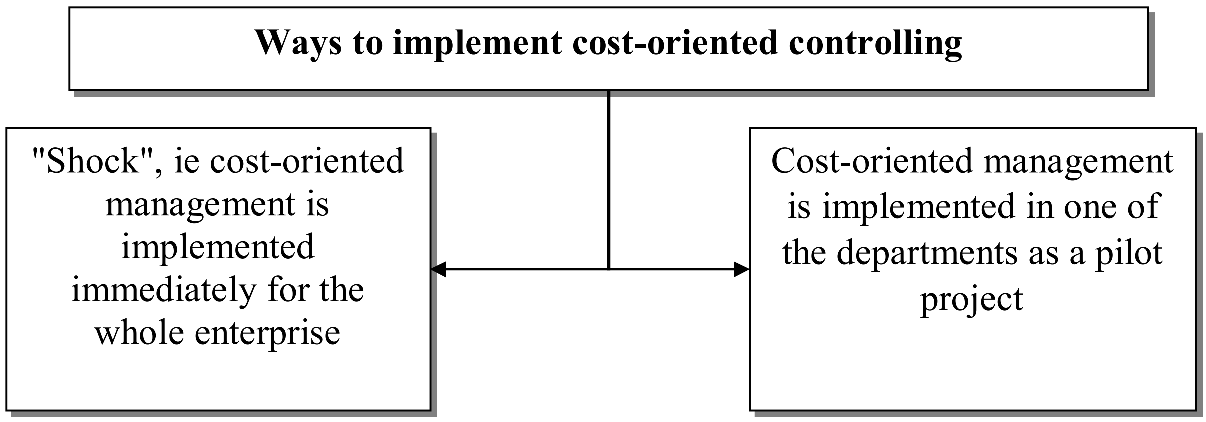

Figure 6.2 - Areas of implementation of cost-oriented controlling

The best time to implement VBM is about a year. A shorter period is not acceptable, as it will not be enough to carry out the necessary training programs for staff.

An important stage in the introduction of cost-oriented controlling at the enterprise is the construction of a tree of key financial indicators.

<u>Approaches to building a system of indicators:</u>

1st. Approval of the most important absolute and relative indicators that characterize the creation of value is the result of work on their identification by a hierarchical method ("bottom up" or vice versa);

2nd. Cost parameters are set "above" both for departments and for the enterprise as a whole.

3rd. Normative values of indicators for the whole company and for its structural subdivisions are established.

To build a tree of key indicators or growth factors, research is first conducted on the conditions of doing business and the results of financial and economic activities of the company. On the basis of the received information the priority and subordination of indicators (factors) is determined, their classification according to certain criteria is carried out. The advantages of this approach compared to others are the ability to clearly present the value chain, identify sources of value creation, understand the nature of their relationships.

It should be noted that the use of these factors, or fundamental cost indicators (EVA, MVA, CVA, CFROI, etc.) in value management depends on the vision of the company's management, owners or shareholders advantages and disadvantages of both individual indicators and VBM system as a whole (Fig. 6.3, Fig.6.4).

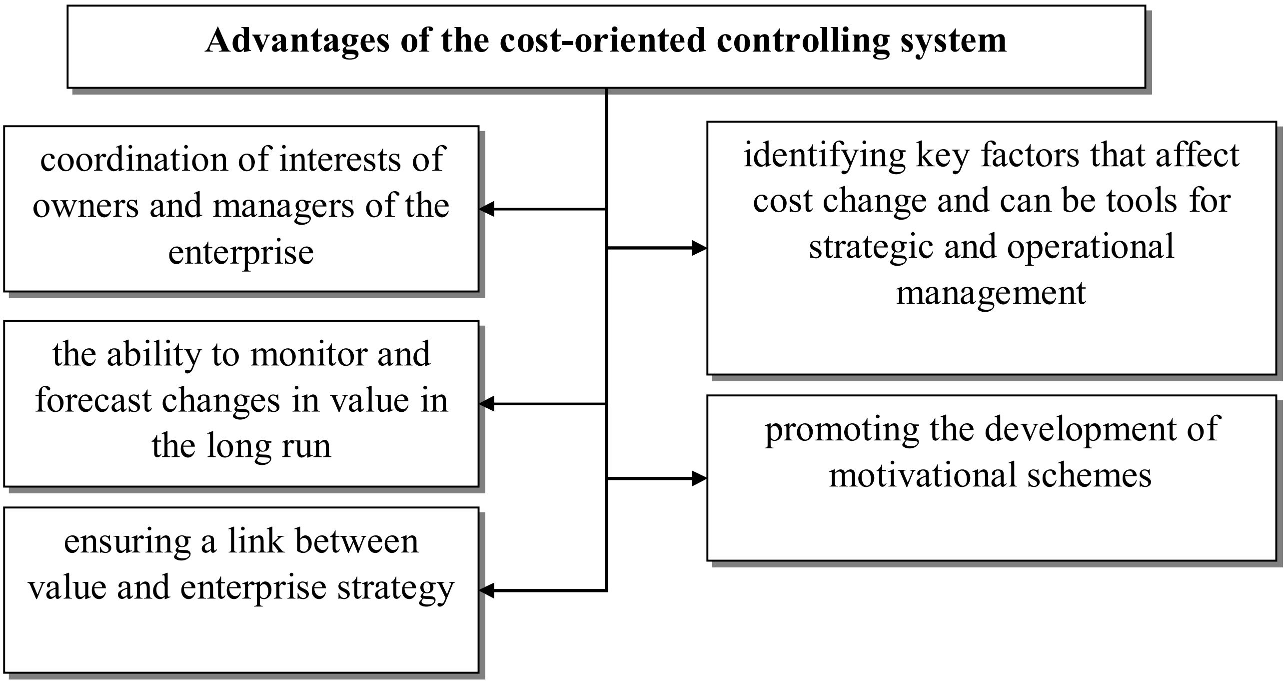

Figure 6.3 - Advantages of the cost-oriented controlling system

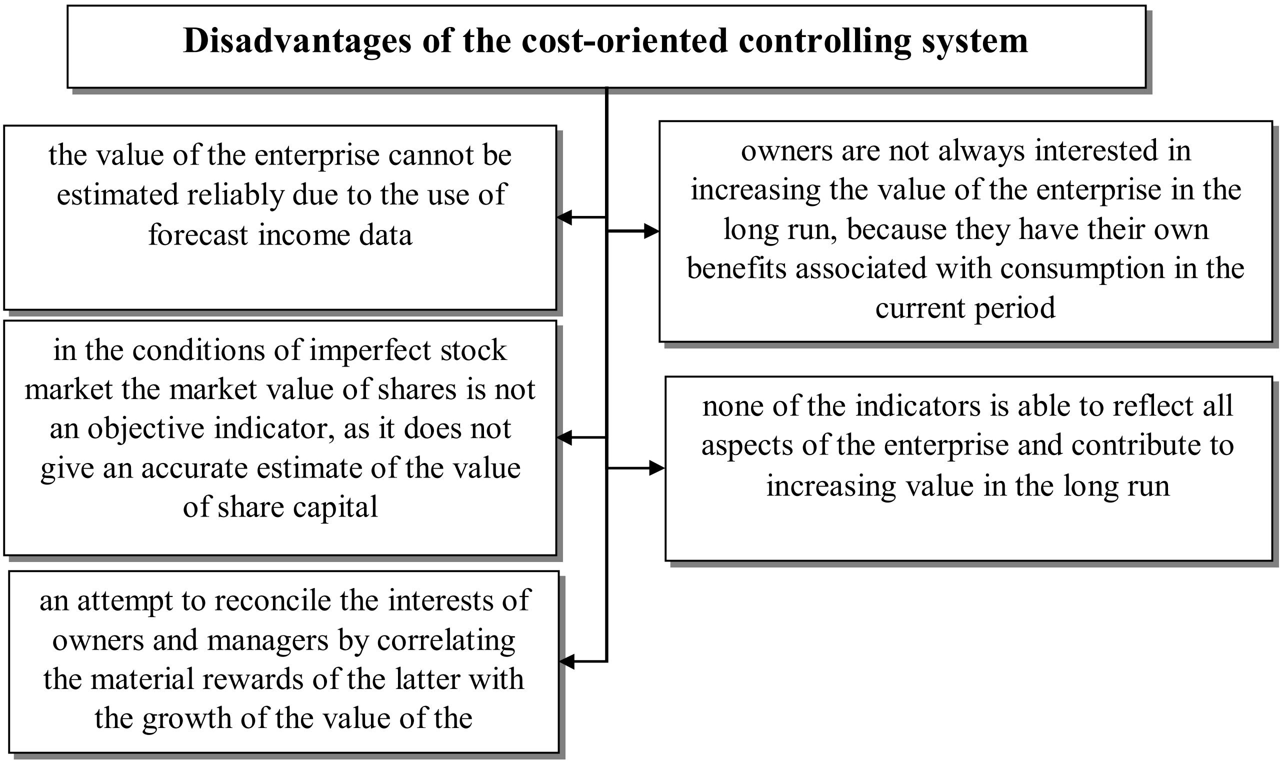

Figure 6.4 - Disadvantages of the cost-oriented controlling system

<u>Questions for self-control:</u>

1. What is cost-oriented management?
2. Identify elements of cost-oriented management.
3. What are the key factors that affect the value of the company?

4. What are the possible ways to implement cost-oriented controlling?
5. Define a value measurement system in cost-oriented controlling.
6. What are the advantages and disadvantages of a cost-oriented controlling system?

TOPIC 7. *STRATEGIC FINANCIAL CONTROL IN THE SYSTEM OF BALANCED INDICATORS - 1 HOUR.*

Goal: *mastering the essence and purpose of financial controlling in the system of balanced indicators by students of higher education, studying the tools of strategic financial controlling, getting acquainted with the system of balanced indicators.*

Plan:

7.1. The essence and purpose of strategic financial controlling

7.2. Strategic financial controlling tools

7.3. Balanced scorecard system

Key concepts: *strategic financial controlling, problems of strategic controlling, tools of financial controlling, system of balanced indicators.*

7.1. The essence and purpose of strategic financial controlling

Strategic controlling is the most important component of controlling, managing the external environment, strategic success factors, alternative strategies, strategic goal.

Strategic controlling is aimed at implementing long-term strategies and programs.

In the economic literature, much attention is paid to the direction of strategic controlling. Thus, A. Gelvaiter in his book "Strategic Enterprise Management" identifies eight problems that can solve strategic controlling.

Eight problems of strategic controlling

[illegible]

1. Ongoing control of operational actions against possible strategically harmful side and effective actions.
2. Checking the strategic situation of the enterprise on the basis of independent and gradual analyzes that are done regularly or at appropriate individually set intervals.
3. Periodic inspection of the delimitation of strategic units of the enterprise, as well as in accordance with the applicable criteria.
4. Periodic control of the principles of enterprise activity defined for strategic decisions.

Financial problems that arise in economic entities are often due to the lack of clear strategic development goals, long-term financial plans and lack of understanding of the mission of the economic entity. As a result, companies have difficulty determining the need for capital and other resources: capacity is unoccupied, funds are frozen in illiquid inventories and receivables, some sectors are unprofitable and so on. In order to avoid (or neutralize) strategic problems in the enterprise, strategic controlling mechanisms should be introduced.

Strategic financial controlling is understood as a set of functional tasks, tools and methods of long-term (three or more years) financial, cost and risk management. It is believed that the time horizon of strategic controlling is unlimited.

Within the framework of strategic financial controlling, the efforts of financial services of enterprises are focused on the following main tasks:

- determination of strategic directions of the enterprise activity; -

identification of strategic success factors;

- definition of strategic goals and development of financial strategy of the enterprise;

- implementation of an effective early warning and response system (permanent analysis of opportunities and risks, strengths and weaknesses);

- definition of planning horizons;

- long-term financial planning: profit and loss planning, cash flow, balance sheet, key financial indicators;

- long-term management of the value of the enterprise and the profits of its owners;

- ensuring the integration of long-term strategic goals and operational tasks set for individual employees and structural units.

The most important task of strategic controlling is to ensure the viability of the enterprise in the long run based on the management of existing potential and the creation of additional success factors. The company's development potential is determined by the following main factors:

- ❖ financial support and opportunities to attract additional capital;
- ❖ availability of qualified staff;
- ❖ availability of reliable and cheap sources of raw materials;
- ❖ availability of markets for products;
- ❖ production potential;
- ❖ effective organizational structure;
- ❖ high quality management.

7.2. Strategic financial controlling tools

The main tools of strategic controlling include analysis of strengths and weaknesses, building a strategic balance, portfolio analysis, organizational analysis, functional and cost analysis, life cycle model, early warning and response system, discriminant analysis, shareholder-value analysis, Balanced-Scorecard, benchmarking and a number of others.

The methods and tools of strategic controlling include:

- balance sheet analysis, profit and loss calculation;
- cost and productivity calculation;
- reporting;
- information, planning and control system;
- system of indicators;
- short-term and medium-term calculation of success;
- calculation of the amount of margin and break-even analysis;
- ABC analysis;
- calculations of return on investment and efficiency;
- cost reduction and rationalization programs;
- enterprise analysis;
- strategy plans, market analyzes, strengths and weaknesses analyzes;
- portfolio analysis and empirical curves;
- product life cycle analysis;
- cost analysis;
- working time analyzes;

- additive models of production efficiency management;
- multiplicative models of production efficiency management.

7.3. Balanced scorecard system

Back in 1975, Stephen Kerr, summing up the activities of many companies, concluded the need to use different systems for measuring the performance of companies for different purposes, but the greatest contribution to this problem was made by Americans - Director of Norlan Norton Institute David Norton, now head of Balanced Scorecard Collaborative, and Robert Kaplan, a professor at Harvard Business School, who was invited as a research consultant for the project. In 1990, they surveyed 12 large companies that tried to expand their measurement systems by including non-financial indicators, which would allow them to expand the information base for management decisions. The following hypothesis was chosen as the main by the project participants: "Basing the methodology for assessing the effectiveness of the enterprise solely on financial indicators does not increase the future economic value of the organization." The results of the research contributed to the concept of a balanced scorecard (BSC), which was called "balanced" due to a comprehensive approach to the valuation of both tangible and intangible assets, based on four components - finance, marketing, internal business processes, training and growth.

The essence of BSC is that all the basic management processes - planning, allocation and use of resources, budgeting, periodic reporting and activities of managers - are focused on the overall strategy of the company. Organizational processes from top to bottom are the concept (mission) of the company, strategy and allocation of resources, and the implementation of tasks is carried out through innovation, feedback and information flows moving from bottom to top, from direct executors to top managers. As a result of the practical implementation of this approach, outstanding results were obtained - the whole exceeded the amount of parts, ie the company achieved the effect of synergy through the efforts of individual units.

This system is formulated in two main ways:

first, financial indicators alone are not enough to fully and comprehensively (balanced) reflect the state of the enterprise, so they need to be supplemented by other indicators;

secondly, this system of indicators can be used not only as a comprehensive indicator of the state of the enterprise, but as a management system that can provide a link between the strategic policy of owners or top managers and operational activities of enterprise management.

A balanced system retains traditional financial indicators, but these indicators only characterize past events. A management approach based solely on financial performance was adequate for the industrial age, when investing in long-term competitive advantages and relationships with customers and partners were not essential to business success.

The main structural idea of the BSC is to balance the system of indicators into four groups.

<u>The first group</u>includes traditional financial indicators. No matter how important the market orientation of the company and the improvement of internal processes, the owner is primarily interested in indicators of financial return on invested capital.

Therefore, a balanced system should begin (in the classification) and end (in the final assessment) with financial indicators.

Another groupdescribes the external environment of the enterprise, its relationships with customers. The main focus here is:
- the company's ability to meet customer needs;
- the company's ability to retain a customer and acquire a new one;
- customer profitability;
- market volume;
- market share in the target segment.

Third group characterizes the internal processes of the enterprise, in particular:
- innovation process;
- product development;
- production preparation;
- supply of basic resources;
- production;
- marketing;
- after sales service.

Fourth group allows you to determine the company's ability to learn and grow, which focuses on the following factors:
- people with their abilities, skills and motivation;
- information systems that allow you to deliver critical information in real time;
- organizational procedures that ensure interaction between participants in the process and determine the decision-making system.

An essential element of the Balanced Scorecard is to establish the relationship between the indicators of individual groups. The chain of causes and effects must penetrate all four directions of the BSC and combine all goals and indicators.

A balanced scorecard has a consumer focus, which is primarily related to the creation of consumer strategy. The main focus here is on establishing the benefits of consumer groups in terms of price, quality, functionality, prestige, reputation and the nature of customer relationships.

TOPIC 8. *FINANCIAL DIAGNOSIS AND MONITORING IN THE CONTROL SYSTEM - 1 HOUR.*

Goal: *mastering by higher education students of the basic principles and principles of financial diagnostics, study of the purpose, tasks and methodological basis of financial diagnostics, acquaintance with monitoring as an integral element of financial diagnostics.*

Plan:

8.1. Basic provisions and principles of financial diagnostics

8.2. Purpose, tasks and methodological basis of financial diagnostics

8.3. Monitoring as an integral element of financial diagnostics

Key concepts:*financial diagnostics. Principles of financial diagnostics, the purpose of financial diagnostics. Tasks of financial diagnostics, monitoring.*

8.1. Basic provisions and principles of financial diagnostics

In modern business conditions, financial diagnostics is the main tool for making management decisions in the enterprise aimed at achieving its strategic and tactical goals. The quality of the results of financial diagnostics depends on the chosen methods, the qualifications of specialists performing diagnostic procedures, information and software. When conducting financial diagnostics, a large number of different methods are used. Scientifically unreasonable choice of certain methods, depending on certain characteristics of enterprises leads to biased economic interpretation of diagnostic results.

Stages of financial diagnostics:

1. Observation and collection of information about the object of study. The source of such information, at best, can be accounting and statistical reporting, information on trends in the industry, the activities of the industry and the economy as a whole, the dynamics of raw materials, means of production and products of the enterprise.
2. Primary information processing. Each interested analyst, as he accumulates the information available to him, knowledge and mastering the methodology of financial diagnostics determines the financial indicators and ratios that characterize the financial condition.
3. Development of hypotheses. The determined indicators are compared with the indicators of similar typical enterprises. At the same time, an important place is given to experience and awareness of the economic condition of the enterprise. The probability of difficulties that may arise in the enterprise in the near future or in the longer term is estimated.
4. Selection of the most probable hypotheses and conclusions about the development trends of the enterprise.

Note that the diagnosis should be based on generally accepted principles, the most important of which are:

timeliness - diagnostics must be carried out before the crisis situation, the first signs of bankruptcy, take into account the dynamics of the enterprise;

complexity - it is expedient to study separate phenomena and processes in a complex with all other interconnected phenomena, factors, the purposes;

scientific - diagnostics is carried out on the basis of scientifically substantiated principles, concepts, categories, regularities, on application of methodology and research methods;

authenticity - the diagnosis process is based on primary, reliable information;

precision - compliance with the real facts, goals and requirements related to the diagnostic process;

objectivity - diagnosis should be carried out according to the developed research program, according to clearly defined basic parameters with minimal influence of the subjectivity factor; in the process of diagnosis it is necessary to use only real facts, methods and measures to reduce the level of inaccurate estimates;

efficiency - when diagnosing an enterprise, it is necessary to constantly compare the positive and negative consequences of its implementation and the costs associated with this process.

8.2. Purpose, tasks and methodological basis of financial diagnostics

The main purpose of financial diagnostics in the system of operational controlling is a comprehensive assessment of the financial condition of the enterprise, reserves of its activities and business activity to find reserves to increase profitability, production efficiency and strengthen commercial settlements as the basis of stable activity. and other institutions; timely detection and elimination of shortcomings in economic activity to determine ways to improve the financial condition of the enterprise and its solvency. Strategic controlling is aimed at the prospects of enterprise development, and operational controlling is aimed at ensuring the actual implementation of planned performance indicators.

The purpose of diagnostics in the system of strategic controlling should be information support of management decisions based on the assessment of the future ability of the enterprise to generate cash flows, make a profit and create added value; detection of changes in the financial condition in the spatio-temporal context, forecasting the main trends in the financial condition; development of the most probable predictions and forecasts of future conditions of functioning of the enterprise.

Systematic financial diagnostics of the enterprise, its solvency, liquidity and financial stability is a necessary element of operational financial controlling. Thus, the diagnosis of the financial condition of the enterprise is used mainly in the system of operational controlling in order to identify and eliminate shortcomings in the financial activities of the enterprise. Thus, the company's management independently establishes the frequency of financial diagnostics depending on the need to obtain information about the financial condition of the enterprise: monthly, quarterly, annually. In the system of strategic controlling, the diagnosis of the financial condition of the enterprise is not systematic, but is carried out as needed. Thus, in the system of strategic controlling diagnostics is carried out inmainly during financial planning, because without retrospective analysis it is impossible to determine the prospects for further development of the enterprise.

To achieve the goal of financial diagnostics, the following main tasks must be solved:

- ❖ study of profitability of the enterprise;
- ❖ assessment of the dynamics and state of liquidity, solvency and financial stability of the enterprise;
- ❖ study of the efficiency of use of property, capital of the enterprise, providing the enterprise with working capital;
- ❖ assessment of the competitiveness of the enterprise;
- ❖ analysis of business activity of the enterprise;
- ❖ determining the efficiency of financial resources;
- ❖ long- and short-term forecasting of financial stability.

To perform these tasks, study: the presence, composition and structure of current assets of the enterprise, the causes and consequences of their changes; availability, composition and structure of sources of own funds of the enterprise, causes and consequences of their changes; condition, structure and changes in long-term assets; availability, structure of current assets in the spheres of production and circulation, causes and consequences of their changes; solvency and financial flexibility; asset efficiency; return on investment.

The whole system of indicators enters the sphere of controlling and ranks by importance. According to the system of priorities of the first level the most important indicators are selected, then the priorities of the second level are formed, which are in factor connection with the indicators of the first level, etc. This approach facilitates analysis and explanation of deviations of actual values. These systems can have a variety of priorities and priorities:

- ❖ for individual centers of responsibility;
- ❖ for various areas of operational and financial activities of the enterprise;
- ❖ for various aspects of resource use.

8.3. Monitoring as an integral element of financial diagnostics

The issue of monitoring in the diagnostic system requires consideration of the conceptual apparatus. Under the monitoring in the general sense (Russian monitoring, English monitoring, German monitoring n) understand a set of scientific, technical, technological, organizational and other tools that provide systematic control (monitoring) of the state and trends of natural, man-made and social processes . In this context, the monitoring of financial diagnostics is considered as a set of financial and economic, technical, organizational and other tools that provide systematic control (monitoring) of the state and trends of economic development of the enterprise.

Methodologically, monitoring is a series of similar measurements of the object under study and further analysis, evaluation, comparison of the results to identify certain patterns, trends, variables and their dynamics.

Monitoring is classified according to different classification criteria:

Depending on the methodology:

1. Dynamic - analyzes data on the dynamics of development or change of an object, phenomenon or a certain characteristic. This is the simplest method of monitoring, which is used to analyze relatively simple systems: prices, income and expenditure, employment, and so on. The main purpose of such a study is to identify trends, not to identify their causes or preconditions.

2. Competitive - according to this methodology, one, several or a number of identical or similar systems are studied in parallel. Gives the opportunity to evaluate and compare the performance of systems, identify differences between them, identify advantages and disadvantages.
3. Comparative - compares individual indicators or results of more complex studies conducted on identical criteria, several systems of the same level or higher and lower systems. This approach makes it possible to optimize indicators, identify reasons that increase or decrease the difference between them.
4. Comprehensive - combines research methods used in various types of monitoring.

Depending on the goals:

1. Information - is the structuring, accumulation and dissemination of information.
2. Basic (background) - identifies new problems, dangers, trends before they are realized at the management level. The object of monitoring is constantly monitored with periodic measurement of indicators.
3. Problematic - finding out the patterns, processes, hazards, problems that are already known and understanding, elimination, adjustment of which is important from the point of view of management.

Monitoring of the current state of the enterprise is carried out for operational diagnostics, which should promptly signal negative trends in the enterprise. For this reason, the financial indicators used in the monitoring should be highly informative. However, as noted, the number of such indicators should not be too large. Otherwise, it will be difficult to analyze them together and make an adequate decision.

For monitoring, it is necessary to use those indicators that determine the operational characteristics of the business, and compare them in the temporal aspect, which makes sense to do at least once a month. The management of the enterprise should be able to influence the selected indicators on the basis of tactical decisions. In fact, monitoring the state of the enterprise creates a system for detecting crises at an early stage.

The task of forming a list of indicators for monitoring is formally solved quite simply. All financial ratios are divided into groups. From each group, those indicators are selected that are suitable for monitoring according to the above criteria.

Questions for self-control:

1. Define the scheme of diagnostics of the enterprise on the basis of the introduction of controlling.
2. What is financial diagnostics?
3. Discover the essence of the basic provisions of financial diagnostics.
4. What is the format of SWOT-analysis and what are its main positions?
5. What are the main tasks of financial diagnostics of the enterprise?
6. What are the main indicators that characterize the financial and economic condition of the enterprise?
7. What are the main indicators that characterize the business activity of the enterprise?

8. What are the main indicators that characterize the financial stability of the enterprise?
9. Define the essence and main purpose of financial diagnostics monitoring.
10. Describe the types of monitoring according to the main classification features.
11. Determine the number and composition of indicators to monitor the financial condition of the enterprise.

TOPIC 9. HARMONIZATION AND CONSOLIDATION OF FINANCIAL STATEMENTS - 1 YEAR.

Goal: *mastering by higher education students approaches to the harmonization of financial statements, study of the content, objectives and methods of analysis of financial statements.*

Plan:

9.1. Purpose and ways to harmonize financial statements

9.2. Approaches to harmonization of financial reporting

9.3. Content, objectives and methods of analysis of financial statements

Key concepts: *financial reporting, harmonization of financial reporting, international financial reporting standards, approaches to harmonization of financial reporting.*

9.1. Purpose and ways to harmonize financial statements

The economy of each country has individual characteristics, which leads to differences in accounting and reporting. At the same time, the expansion of international relations, the emergence of global capital markets, the creation of international companies necessitate the introduction of uniform rules of procedures for financial accounting and financial reporting. That is why there is a need to develop such uniform rules and procedures.

Since 2000, national accounting standards have been officially introduced in Ukraine. These standards have been developed taking into account the international requirements for the preparation and presentation of financial statements set out in International Accounting Standards (IAS).

Reasons for transition to international accounting standards in Ukraine:

The first reason is that the accounting system operating for decades was formed for the needs of the command-administrative system of economic management and does not meet the requirements of a market economy.

Another reason The transition to IAS is that Ukraine is expanding foreign economic relations with other countries, increasing the number of enterprises with foreign capital, resulting in the need to compare reporting indicators, consistency in approaches to measuring the assets of enterprises, their liabilities, financial performance activities.

The financial statements of companies in different countries have some differences due to social, economic and political factors.

To ensure the harmonization of financial statements, the International Accounting Standards Committee (IASB) was established on June 29, 1973. It was founded on the basis of an agreement concluded by professional organizations of accountants of many developed countries. In 2000, the Committee was renamed the International Accounting Standards Board (IASB).

According to the IASB Constitution, its purpose is to establish, publish and improve in the public interest the accounting standards that must be followed when submitting financial statements, as well as to promote their adoption and compliance in all countries. During its operation, IASB has issued 5 International Financial Reporting Standards (IFRS) and 41 International Accounting Standards (IAS).

IASs primarily define valuation techniques and disclosure requirements in financial statements. Therefore, IASB has changed the name of the standards to International Financial Reporting Standards.

International Financial Reporting Standards (IFRS) - an effective tool to increase the transparency and clarity of information, which:

- discloses the activities of business entities;
- creates a reliable basis for the recognition of income and expenses, valuation of assets and liabilities.

Advantages of applying IFRS:

- the ability to obtain the necessary information for management decisions;
- ensuring the comparability of the reporting of different organizations, regardless of which country they are resident and in which territory they carry out economic activities;
- the possibility of attracting foreign investment and loans, as well as access to foreign markets;
- prestige, greater trust from potential partners;
- reliability of information;
- transparency of information due to compliance with the rules of its compilation, as well as explanations to the reporting.

For the understanding and practical application of IAS, their Conceptual Framework is important. It outlines the concepts on which general purpose financial reporting is based.

The conceptual framework concerns: general purpose financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity, notes); all enterprises, regardless of ownership and type of activity (commercial, industrial and commercial).

The conceptual framework is not part of IAS. Therefore, in the event of a conflict between the Conceptual Framework and a separate standard, the requirements of IAS are a priority. Further improvement of the standards helps to harmonize IASs with their Conceptual Framework.

In order to promptly respond to problems of practical application of standards, the IASB Board issues an interpretation of the relevant provisions of existing standards and their Conceptual Framework.

Therefore, the IAS accounting methodology is determined by:

– directly by international accounting standards;
– The conceptual basis of IAS;
– interpretations.

9.2. Approaches to harmonization of financial reporting

Qualitative characteristics of financial statements are attributes that make the information presented in the financial statements useful to consumers.

The main qualitative characteristics of financial statements are:

❖ Understandability is the quality of information that allows users to perceive its meaning. However, this does not mean that users will be able to properly understand the content of financial statements without the necessary basic knowledge in business, economics and accounting;

- ❖ Relevance - characterizes the ability of information to influence decisions
- ❖ Reliability - means that the information provided does not contain errors and distortions that could affect decision-making;
- ❖ Comparability - information is characterized by the ability of users to compare the data of financial statements for different periods, or financial statements of different enterprises.

In order for the financial statements to meet their objectives, they are prepared taking into account generally accepted principles:

1. *The principle of accounting* - during the preparation of financial statements, each company is considered as a legal entity that is separate from the owners - individuals. It is known that personal property and debts of owners are not reflected in the financial statements of the company.
2. *The principle of duality* based on the assumption that the amount of resources of the enterprise can not be greater or less than its liabilities and capital.
3. *The principle of monetary measurement* - the facts given in the financial statements always have a monetary value. Accounting operates exclusively with data that have a monetary dimension, data that do not have a monetary expression, can not be presented in the financial statements of the enterprise.
4. *The principle of accrual* - in accordance with this principle, the results of transactions are recognized when they occur, and not when cash is withheld or paid and reflected in the accounting records and financial statements of the periods to which they relate.
5. *The principle of continuity* also called the principle of duration of the enterprise. The essence of the principle is that the company is expected to operate during such a period to pay off all existing debts that arise in the course of business.
6. *The principle of neutrality* - is achieved in accounting due to the fact that the information contained in the financial statements is unbiased and as a result of selection or presentation it influences the decision or judgment in order to achieve a predetermined result.
7. *The principle of prevalence* essence over form - information that must accurately reflect the transactions should be disclosed in accordance with the essence and economic reality, and not only on the basis of legal form.
8. *The principle of consistency of benefits and costs* - the firm incurs costs in order to make a profit. The benefits of information must outweigh the costs of providing it. The costs may not be borne by those who benefit, moreover, the benefits may be borne not only by those for whom the information was prepared.
9. *The principle of completeness of information display* - In order to comply with the principle, it is necessary that the information presented in the financial statements is complete within the materiality and costs associated with obtaining it.
10. *Principles of materiality of information* - useful information that can influence users' decisions is essential. Materiality depends on the scope of the article and the errors made in certain circumstances due to omission or misrepresentation.
11. *The principle of periodicity* - as users want to compare the financial condition, results of operations and changes in the financial condition of the enterprise after

certain periods of time, it is necessary that the financial statements reflect the relevant information for previous periods.

All these principles - not laws, but rules, concepts, which are developed by the practice of international accounting experience and which are used in the evaluation and reflection of business transactions.

9.3. Content, objectives and methods of analysis of financial statements

Financial Statements - is a set of reporting forms, which are compiled on the basis of financial accounting data in order to provide external and internal users with generalized information about the financial condition in a form that is convenient and understandable for these users to make certain business decisions.

In world and national practice, the construction of financial statements is based on the principles:

- ❖ openness of information;
- ❖ clarity of financial statements to those who make business decisions based on it;
- ❖ usefulness or significance and probability;
- ❖ assumptions and limitations that allow for an adequate interpretation of the financial statements.

The main purpose of the controlling service in the analysis of financial statements - timely detection and elimination of deficiencies in financial reporting and finding reserves to improve the financial condition and solvency of the enterprise.

When achieving the main goal it is necessary to solve the following tasks:

1) Based on the study of production, investment and financial activities to assess the implementation of the plan for the receipt of financial resources and their use from the standpoint of improving the financial condition of the enterprise.
2) Forecasting possible financial results, ie profit and profitability, based on the real conditions of economic activity and the availability of own and borrowed resources, development of models of financial condition for different uses of resources.
3) Development of specific measures aimed at more efficient use of financial resources and strengthening the financial condition of the enterprise.

The main sources of information for the analysis of the financial condition of the enterprise are forms №1, 2, 3, 4.

Analysis of financial statements helps:

- ❖ substantiate financial plans;
- ❖ identify weaknesses in the financial operations of the enterprise;
- ❖ take appropriate measures to help rectify the situation;
- ❖ decide on more efficient use of funds and resources of the enterprise;
- ❖ adequately adjust the directions of future activities of the enterprise;
- ❖ to study the liquidity, solvency, financial stability and creditworthiness of the enterprise;
- ❖ - provide information needs of users (owners, investors, creditors).

The main task of the financial controller in the analysis of financial statements - understand and correctly interpret the results of data processing.

Analyzing financial statements use different methods and techniques of financial controlling, which were discussed in previous sections.

The methods of analysis include:

- horizontal (temporal) analysis;
- vertical (structural) analysis; - trend analysis;
- analysis of relative indicators (coefficients); - comparative analysis; - factor analysis.

Methods of analysis:

1) informal: - expert assessments; - comparative;
- building a system of indicators;
- construction of a system of analytical tables.

2) formalized:
- chain substitutions; - arithmetic differences; - balance; - percentage numbers;
- simple and complex interest; - discounting.

3) traditional methods of economic statistics: - average and relative values;
- grouping;
- index.

Questions for self-control:

1. List the types of financial statements and describe them.
2. Formulate methodological approaches to the evaluation of financial statements.
3. What techniques are used in the analysis of financial statements?
4. What tasks does the financial controlling service need to solve in order to achieve the main goal of conducting financial reporting analysis?
5. Identify how to ensure harmonization of financial reporting?
6. Describe the principles of including information in financial statements.
7. Explain the essence and conditions of implementation of the decision support system (DSS).
8. What factors are involved in developing a strategy for building an integrated AIS?

TOPIC 10. EXPENDITURE CONTROL IN THE FINANCIAL MANAGEMENT SYSTEM - 1 HOUR.

Goal: *mastering by students of higher education theoretical principles of cost control in the system of financial management*

Plan:

10.1 The essence of cost controlling
10.2 Classification of costs

Key concepts: costs, cost controlling, cost structure, transfer pricing, cost classification.

10.1 The essence of cost controlling

Cost controlling can be defined as a set of measures to coordinate the planning, distribution, analysis and control of enterprise costs.

A necessary prerequisite for effective cost control is the identification of causal links in the field of costs, their calculation and accounting. The calculation of costs in terms of individual objects is the task of management accounting.

The results of cost control - the basis of cost management. Cost management (cost management) covers a set of targeted measures to influence the structure of costs, their dynamics and behavior in order to reduce them.

Rationalization of costs is largely determined by the ability to influence their structure.

Cost structure -it is the ratio between individual types of costs (direct / indirect; fixed / variable, individual cost elements) for a certain level of factors influencing costs. Reducing, for example, the share of indirect costs in their overall structure leads to a decrease in the overall level of costs per object.

Cost behavior should be understood as the direction and intensity of their change in the event of changes in the parameters of the factors influencing costs. The behavior of costs is largely determined by their type: variable, constant, direct, indirect. Knowledge of the dependence of the level of costs on changes in individual factors of production makes it possible to influence their level by changing these factors accordingly. Significant impact on the amount of costs is achieved mostly after a certain period after the relevant decisions. That is why cost management activities are mostly strategic.

Strategic cost management covers a set of all measures that have a long-term impact on the level of costs, their structure and behavior. Under the level of costs should be understood their value for a given state of influencing factors. An important task of controlling as a system of financial decision support is the integration of strategic cost management tools into cost-oriented financial management.

The most common tools of strategic cost management, which are given in scientific and practical sources, include the calculation of product life cycle, process, functional-cost calculation of costs (ABC method), target costing, benchmarking, analysis of indirect (overhead costs), zero- budgeting basis, multi-stage direct costing. The key tools for operational cost management are direct costing and CVP analysis.

Features of building a cost management system are determined by the type of strategy implemented by the company. As you know, the concept of competitive strategies according to M. Porter provides the following types of strategies:

- cost leadership;
- differentiation;
- focusing.

The strategy of leadership in terms of costs involves the use of a set of measures through which the company seeks to take a leading position in the industry (or in a particular market segment) by saving on costs. This can be achieved through the use of modern cost management methods (CVP analysis, ABC method, target costing, benchmarking, etc.), effective budgeting and cost control, minimizing indirect and fixed costs. According to this strategy, costs are the basis of pricing for goods, works and services. The criterion for evaluating the management of all levels is the level of execution of expenditure budgets.

The strategy of differentiation is to focus the company's activities on creating "unique" in any aspect of products that are valued by a sufficient number of consumers. "Unique" products are characterized by additional usefulness compared to basic standardized counterparts. Consumers are willing to pay a higher price for the product compared to the base product offered by competitors. Properties that determine the uniqueness of a product may include: quality, long service life, after-sales service, short delivery times, and more. Moreover, the increase in prices for "unique" products is much higher than the additional costs of their creation. That is why, in contrast to the cost leadership strategy, the differentiation strategy prioritizes the planning and control of sales revenue. The main criteria for evaluating management are the level of execution of sales budgets and profit margins. As part of the differentiation strategy, the use of cost management methods such as target costing, product life cycle calculation, and the ABC method can be considered.

The focus strategy is aimed at increasing the specialization and concentration of the enterprise, taking into account the requirements of a particular segment without targeting the entire market. Companies strive to provide benefits through cost leadership or as a result of differentiation.

*Strategic cost management*can be based on reactive (from the Latin "reactio" - "response") or proactive (from the Latin "pro" - "before" and "activus" - "activity") approaches. The task of proactive cost management is to prevent costs that generate costs. Includes early analysis of the size, structure and behavior of costs. Proactive cost management tools depend on cost objects (processes, products, departments, etc.).

Reactive cost management involves responding quickly to changes in the environment in order to save costs. Such management is mostly unsystematic, forced and used to overcome the crisis.

An important area of cost management is related to the impact on the behavior of staff and management at all levels in order to rationalize costs. The main ways to influence the behavior of agents to ensure the economical use of resources include the following:

❖ cost control;

- introduction of cost-related estimates;
- the order of distribution of indirect costs;
- transfer prices;
- motivation system.

A necessary prerequisite for effective management decisions aimed at reducing costs is a well-established accounting of income and expenses. This task belongs to the competence of management accounting. Management accounting makes it possible to significantly reduce the information asymmetry between the company's management and cost centers, and thus increases the responsibility of the latter for the rational use of resources. Traditionally, management accounting belongs to the tools of operational controlling. However, information on the results of management accounting is also used to make strategic decisions. The main tasks of management accounting are:

ensuring the distribution of costs in terms of "sold products - inventories", "fixed - variable costs", "direct - indirect costs";

assistance in identifying problematic issues in the field of costs and developing alternative solutions to solve them;

creating a base for the use of modern methods of cost management;

ensuring budget control (analysis of the reasons for deviations of actual cost indicators from planned);

formation of an information basis for improving the production program, pricing and logistics;

creation of an objective basis for evaluating the results of financial and economic activities (or individual measures, operations) in the planning period as a whole for the enterprise and in terms of individual centers of responsibility.

10.2 Classification of costs

An important element of cost control is their identification and analysis. To ensure effective planning of financial results, cash flows, value added, and other financial parameters of the enterprise should have information on costs for individual centers of responsibility, as well as costs for production and sale of certain products (works, services). Without this information, it is impossible to determine the efficiency of production of a product, the activities of individual centers of responsibility, as well as to conduct effective analysis and control of deviations.

In order to analyze the costs it is necessary: to identify the objects of costs, to allocate costs by individual objects, as well as to identify the main factors influencing the amount of costs. In the table. 10.1 shows the classification of costs depending on their characteristics.

Table 10.1 Classification of enterprise costs

Sign	*Type of costs*
1. By place of cost	For the enterprise as a whole, for structural units, centers of responsibility
2. By types of products, works. services	For marketable and sold products
3. By scale and nature of costs	By cost elements, by costing items

4. According to the method of transferring value to products	Direct and indirect
5. According to the degree of influence of production on the level of costs	Conditionally variable, conditionally constant
6. According to the method of calculation	Regulatory costs, planned and actual
7. By calendar periods	Current, one-time

Direct costs - these costs are associated with the production of certain types of products (raw materials, basic materials, consumer goods, semi-finished products, direct labor costs, etc.) and can be directly included in their cost (attributed to a specific cost object).

Indirect costs - costs associated with the production of several types of products (costs of maintenance and operation of equipment, overhead, overhead costs), which are included in the cost using special methods. Indirect costs form complex costing items (consisting of costs covering several elements), which differ in functional role in the production process.

Conditional variables - costs, the value of which increases with increasing output and decreases with its decrease (costs of raw materials, components, semi-finished products, fuel and energy, wages for workers employed in production, etc.).

Conditionally constant - costs, the value of which does not change significantly with the change in output (costs associated with the maintenance and management of production activities of production units, to meet the economic needs of production).

According to UAS 16 "Costs" the object of costs - products, works, services or activities of the enterprise, which require the definition of costs associated with their production (performance). Cost accounting can also be carried out in terms of places of their occurrence (centers of responsibility, structural units). Thus, the object of assignment (accounting) or place of occurrence of costs is a product, organizational unit, type of production, cycle, stage, unit, other activity or program, project, task, etc., for which separate cost accounting is organized, ie open separate analytical account for cost accounting. The objects of cost accounting are determined at each enterprise independently, taking into account the conditions of production, features of technology and the needs of cost management.

In order to make effective decisions on cost management, it is necessary to solve the problem of allocating costs to specific cost objects (types of products, works, services or activities) and to fixed variables.

One of the important generalizing economic indicators of efficiency of work of the enterprise and criterion of decision-making concerning pricing, structure of assortment of production is prime cost of production. The cost of goods sold is formed from the production cost of products sold during the reporting period, unallocated fixed overheads and excess production costs. Production cost characterizes all the costs of the enterprise for the production of products (costs directly related to the product) and includes:

❖ direct material costs that can be directly attributed to a specific cost object;

❖ direct labor costs;

❖ other direct costs that can be attributed to a specific object (depreciation, deductions for social activities, losses from marriage);

❖ variable overhead costs and fixed allocated overhead costs.

According to the requirements of financial accounting, expenses related to a certain period are not included in the cost of finished products. Expenses that cannot be directly related to income of a certain period are reflected in the expenses of the reporting period in which they were incurred. If the costs are directly related to the receipt of income in a certain period, they are recognized as expenses at the same time as the recognition of the relevant income (in the same period).

Calculating the cost of production and sales is called costing. Depending on the time of compilation, calculation methods and initial calculation data are divided into planned, normative, provisional, actual.

Questions for self-control:

1. The essence of the cost structure.
2. Cost controlling results.
3. Cost classification.
4. What is the calculation for the production and sale of products?

TOPIC 11.INTERNAL FINANCIAL CONTROL ON ENTERPRISES - 1 HOUR.

Goal: *mastering by higher education students the essence and importance of internal financial control at the enterprise, studying the functions and forms of internal financial control, acquaintance with the methods of internal financial control.*

Plan:

11.1. The essence and importance of internal financial control

11.2. Functions and forms of internal financial control

11.3. Methods of internal financial control

Key concepts: *financial control, internal financial control, functions of internal financial control, forms of internal financial control, control system, purpose of internal control.*

10.1. The essence and importance of internal financial control

In order to increase the efficiency of management, the heads of economic entities and other structures (including state ones) may consider it expedient to create specialized units under their jurisdiction to conduct financial control at the facilities they manage. This is the so-called internal financial control - independent of external influences, the activities of the business entity or governing body to audit and evaluate its work, which is carried out in its own interests. In market conditions, financial control acquires independent theoretical and practical significance as an important part of the theory and practice of financial management. It is a process organized by the administration of the company to verify the implementation of all management decisions in the field of financial activities in order to ensure the implementation of financial strategy and tactics and prevent crises leading to bankruptcy. The system of internal financial control is created at the enterprise on a linear or functional basis or simultaneously contains both of these elements. This control system is based on the division of responsibilities between individual services and their managers. This traditional system of control organically includes financial control. This control system is based on the division of responsibilities between individual services and their managers. This traditional system of control organically includes financial control. This control system is based on the division of responsibilities between individual services and their managers. This traditional system of control organically includes financial control.

The control system is provided to help business leaders in matters:

1. choosing between different alternative actions, planning actions that can be applied in a certain period;
2. detection of errors of specific performers. They can be manifested in the establishment of unrealistic plans in the presence of accurate forecasts, or in the failure of those actions that must be applied to implement specific financial, investment, marketing and other decisions;
3. perform actions that could correct mistakes and consolidate success.

Thus, internal financial control is the activity of the finance or controlling department aimed at providing structural units of the enterprise with reliable information on the use of financial resources by structural units of the enterprise, assessing the effectiveness of their financial and economic activities, identifying and preventing deviations. property and funds.

Internal financial control is a self-control exercised by organizations, enterprises, institutions over their own financial activities and the financial activities of the units that are part of them.

Internal control is subordinated to the manager who organized it, but it should be as functionally and organizationally independent as possible.

The purpose of internal control- to help the management of the business entity or the governing body (including the public administration body) to perform its functions effectively. Internal controllers provide management with analysis and evaluation data, recommendations and other necessary information obtained from inspections. Using this information, management decides what steps need to be taken to address the identified deficiencies (if any) and which areas have room for improvement. Thus, internal control:

- ❖ conducted within the organization (or management structure) by its employees (controllers);
- ❖ organized by the decision of the management of the organization (or governing body);
- ❖ internal control information, as a rule, is intended for the management staff of the organization;
- ❖ internal control is maintained at the expense of the organization.

B the list of responsibilities of internal controllers may also include:

- checking the effectiveness of control systems;

- assessment of the cost-effectiveness and efficiency of the organization; - determining the level of achievement of program goals.

Management auditors may also be entrusted with the functions of management audit.

Management audit - is the study of business operations in order to make recommendations for economical and efficient use of resources, optimal achievement of the end result and policy development organization. It should help managers perform their functions and increase the profitability of the organization.

11.2. Functions and forms of internal financial control

Systems and methods of internal financial control play an important role in the financial controlling mechanism.

Internal financial control is a process organized by the company to verify the implementation and implementation of management decisions in the field of financial management of the enterprise in order to achieve strategic goals and prevent crises that could lead to bankruptcy.

B In large Western corporations, the functions of financial management and control are usually performed by the CFO, auditor (controller) and treasurer.

The functions of the auditor are internal and are to maintain accounting records, study the flow of documents and control the results of financial activities on past and current trade and financial transactions. The auditor is the chief accountant and is tasked with preparing operational financial reports, tax returns, annual reports and paperwork for government regulators. The auditor must ensure that the company's funds are used efficiently and for their intended purpose.

The function of the treasurer is external. He manages the capital of the joint-stock company and has contacts with creditors, investors, shareholders, insurers, as well as with government agencies. The Treasurer is responsible for the effective management of property and debt obligations of the company, financial planning, investment, development of credit, investment and dividend policies. The financial director of the corporation organizes and coordinates the work of the auditor and treasurer. He is entrusted with control over all stages of the company's financial activities and the role of financial advisor to its management. He is involved in the development of financial and investment policies.

The study of the main causes of deviations of the actual values of indicators from the planned (regulatory) is carried out for the company as a whole, its branches and representative offices and centers of financial responsibility. In the process of such analysis, those financial indicators and centers of financial responsibility are considered where there are "critical" deviations from current plans, budgets, regulations and standards. For each "critical" deviation find out their causes. In particular, use control reports of executors (heads of shops, departments, services). The financial monitoring system developed by the company can be adjusted when changing the objectives of control and the composition of indicators of operational production plans and budgets. A similar system of actions is carried out in a situation when the possibilities of optimizing certain aspects of financial activities are limited or absent.

Forms of financial control

The form of financial control is understood as a specific expression and organization of control actions. Forms of financial control can be classified according to various criteria.

<u>Depending on the ratio of time of control and time of financial and economic transactions</u>audited, there are three main forms of financial control: previous, current and subsequent.

Preliminary control precedes the implementation of the inspected operations. It is usually carried out at the stage of preparation, consideration and approval of draft budgets, financial plans of economic entities, estimates of revenues and expenditures of institutions and organizations, draft legislation, contractual agreements, constituent documents, etc. Prior to the completion of economic and financial transactions, preliminary control allows at the stage of forecasts and plans to eliminate attempts to violate current financial legislation and misuse or irrational use of funds, to identify sources of additional financial resources.

Current control, which is also called operational, is carried out in the process of economic and financial transactions, implementation of financial plans, budgets. Based on data from primary documents, operational and accounting, inventory and visual observation, current control allows you to track and regulate rapidly changing economic situations, prevent losses and damages, prevent financial offenses, misuse of funds.

Subsequent control the results of formation and use of financial resources are subject. The completeness of the formation of financial resources, the legality and expediency of their spending in the implementation of budgets, the implementation of financial plans of economic entities, estimates of budgetary institutions. As a result of the analysis of use of material, labor and financial resources, legality of the carried-out financial and economic operations, the reached financial results the estimation of financial and economic activity of the controlled subject is carried out. Subsequent control is characterized by in-depth study of economic and financial activities of the entity for a certain period. Its results are closely related to the results of previous or current control, which reveals the shortcomings of their implementation.

By the nature of the material, on the basis of which the control is divided into documentary (formal) and factual.

Sources of information for documentary (formal) control are primary documents, accounting registers, accounting, statistical and operational-technical reporting, regulatory, design, technological and other documentation.

Actual control is based on the study of the actual condition of the objects inspected according to their inspection (recalculation, weighing, laboratory analysis, etc.), and therefore it can not be comprehensive due to the continuity of economic situations. The completeness and indisputable provability of primary documents and accounts, if necessary, are established by special methods of actual control. Therefore, both types of control do not exist in isolation, but complement each other.

11.3. Methods of internal financial control

In general, there are the following methods of financial control: inspection, audit, survey, analysis. These forms can be used in the system of internal financial control, if the company has organizational units in the organizational structure.

Audit - is a single control action or study of the situation in a particular area of the subject. From the point of view of law, financial audit appears as a procedural action to control financial and economic activities. It consists in comparing the actual control data with the data reflected in the documents (tax, reporting, balance, expenditure). The audit determines the legality and, if necessary, the effectiveness of the use of financial resources, violations of financial discipline are identified. As a rule, certain issues of financial and economic activity are subject to inspections. Based on their results, measures are usually planned to eliminate the identified shortcomings.

Depending on the location of the audit are divided into in-house and on-site, this is more relevant to the external tax audit, but in the classification should be specified and their.

According to the completeness of the material, there are continuous inspections, when all documents of the organization are inspected, without omissions and assumptions about the absence of violations (and in actual control - and material values), and partial (selective), when only part (certain sample) documents are inspected.

Depending on the volume of issues to be audited, inspections can be complex, selective and thematic (targeted).

Internal financial control at the enterprise may concentrate on certain activities of the business entity (structural unit). In particular, in the practice of financial controlling it is advisable to carry out the following types of VFK:

- planning control,

- control of capital structure,
- control of investment of the enterprise.

Planning control. Practice shows that many problems of enterprises begin with unqualified business plans, budgets and estimates. Moreover, errors in these papers can be both intentional, ie arose as a result of abuse, and caused by the imperfection of the technology adopted by the company to compile financial documents. On the other hand, enterprises where budgeting and business planning systems are under the control of internal auditors, have the opportunity to significantly increase the efficiency of their work.

Control of capital structure. Another object for internal financial control is the capital structure of the enterprise. Ideally, it maximizes the value of the enterprise and at the same time minimizes the total cost of its capital. And in its assessment it is necessary, first of all, to analyze and evaluate the ratio of debt and equity, the level of financial leverage, its dependence on the structure of financing, the size and structure of debt sources.

Control of enterprise investments. It is possible to finance the enterprise by attracting investments. In this case, the company will have to determine its policy on the payment of income on securities, and therefore, it will inevitably face a dilemma. On the one hand, the maximization and stability of dividend payments affect the growth of quotations (and if the co-owners of the company are its employees, then the productivity). On the other hand, by increasing the payment of dividends from time to time, the company automatically reduces the share of profits reinvested in production. We have to look for the "golden mean", linking together the strategic goals and current objectives of the enterprise.

Summarizing the above, we note that in a market system of management industrial enterprise - a self-organized socially oriented system - operates in a tough competitive environment and has full economic independence. In these conditions, the system of internal control of the industrial enterprise should focus on ensuring the following basic indicators of efficiency in modern conditions:

1) stable position of the enterprise in the markets;
2) financial condition of the enterprise;
3) timely adaptation of production and management systems of the enterprise to the dynamic external environment (market conditions);
4) the quality of the information protection system at the enterprise;
5) the quality of the internal control system at the enterprise.

The need and effectiveness of internal financial control are the basis for the effectiveness of any system.

<u>Questions for self-control:</u>

1. Discover the essence of internal financial control.
2. What issues is the control system designed to address?
3. Identify and compare the functions of auditor and treasurer.
4. What are the forms of financial control in the enterprise?
5. What is the essence of previous and current control?
6. Define the role and essence of subsequent financial control.
7. Define the nature, purpose and types of inspections at the enterprise.

8. What is planning control and what is its significance in the financial controlling system?

9. Describe and determine the content of control of capital structure.

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