



**СЕКЦИЯ
ИНВЕСТИЦИОННЫЙ И ФИНАНСОВЫЙ МЕНЕДЖМЕНТ НА УРОВНЕ
РЕГИОНА И ПРЕДПРИЯТИЯХ**

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**ERRORS IN ACCOUNTING OF BUDGETARY INSTITUTIONS:
METHODS OF CORRECTION AND PREVENTION**

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Rezumat. lucrarea are în vedere natura și tipurile de erori contabile ale instituțiilor bugetare după diferite criterii de clasificare. O atenție deosebită se acordă unor astfel de metode de corectare a erorilor contabile identificate, cum ar fi metoda înregistrărilor contabile suplimentare și metoda „reversării roșii” (reversării) și cazurilor de aplicare a acestora, precum și modalități de corectare a erorilor din situațiile financiare ale instituțiilor bugetare. Pentru a respecta principiile și regulile de contabilitate în instituțiile bugetare și pentru a detecta în timp util erorile, este justificată necesitatea unui control intern regulat.

Cuvinte cheie: contabilitate, instituții bugetare, corectarea erorilor, control intern, principii contabile.

Annotation. The essence and types of accounting errors of budgetary institutions by different classification criteria are considered in the paper. Particular attention is paid to such methods of correcting accounting errors as the method of additional accounting entries, the method of “red reversal” and correction errors in the financial statements of budgetary institutions and cases of their application. In order to comply with the principles and rules of accounting in budgetary institutions and timely detection of errors, the need for regular internal control is justified.

Keywords: accounting, budgetary institutions, error correction, internal control, accounting principles.

Employees of the accounting department are constantly faced with imperfect legislation, innovations in the accounting, which raise many questions, to which there is often no clear answer. As a result - fatigue, which leads to errors that not only affect the reliability of the data in the account, but also complicate reporting. Even a highly qualified and experienced accountant cannot be insured against mistakes.

The current legislation does not have a clear definition of “accounting error”, but given the principles of accounting, defined by Article 4 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” 6996-XIV of 16.07.1999 [1], it is possible define accounting error as

omissions, distortions, misrepresentations, inaccuracies, distortions of information in accounting documents and financial statements [2, p.193].

Standards for qualification and correction of errors in financial statements are defined by the National Regulation (Standard) of Accounting in the Public Sector 125 “Changes in accounting estimates and correction of errors” [3].

Thus, in essence, the errors may be as follows:

- arithmetic (arising from arithmetic calculations);
- methodological (occur in case of misinterpretation or application of regulations);
- “emotional” (occur due to inattention of the employee);
- technical (occur during technical failures in computer programs and complexes, which are used to calculate and pay salaries).

Accounting errors of budgetary institutions can be classified according to the following characteristics:

1. Period of occurrence:

- errors of the current reporting period;
- errors of previous reporting periods.

If the error affects the income and expenses of the previous reporting period, then it is necessary to adjust the accumulated financial result, ie the balance of account 5512 “Accumulated financial results of the budget” at the beginning of the year, in accordance with paragraph 5 of section 2 of Standard 125 “Changes in accounting estimates and corrections”, and paragraph 6 of section 2 states that the correction of material errors relating to prior periods involves the restatement of relevant comparative information in the financial statements, except when it is inappropriate.

2. Stages of accounting at which errors may occur:

- processing of primary documents reflecting the business operations of the institution;
- transfer of accounting data to accounting registers;
- grouping of indicators for reporting.

3. Types of errors according to the consequences:

- significant, identified in the current period, as a result of which the financial statements cannot be considered reliable, in accordance with paragraph 3 of section I of Standard 125;
- insignificant, which do not affect the reporting indicators.

When correcting material errors related to the previous reporting period, the relevant comparative information should be restated in the financial statements (except when this is inappropriate).

The Standards do not state that minor errors may not be corrected.

In general, the materiality of the error is determined by the amount of information, the lack of which may affect the decisions of users of financial statements. In accordance with paragraph 4 of Section I of Standard 101 “Presentation of Financial Statements” [4], the materiality of information is determined by the relevant national regulations (standards) of accounting in the public sector and the management of public sector entities.

In practice, the materiality threshold is usually set by the Chief Budget Officer at 10% of the Balance Sheet amount for the relevant period. In turn, the budgetary institution fixes this amount in the order on accounting policy.

Examples of accounting errors included the following:

- misapplication of accounting policies: e.g. not recognizing sale upon transfer of goods to a customer
- fraud: e.g. overstating sales revenue by issuing fake invoices before the reporting date
- misunderstanding of, or failure to notice, information at the time of preparation of financial statements: e.g. not writing off a receivable who had been announced as insolvent before the authorization of financial statements
- arithmetical errors
- omission of transactions and events from the financial statements

Errors must be distinguished from changes made to prior period estimates that had been based on information that best reflected the conditions and circumstances that existed at the reporting date.

An effective system for detecting and preventing errors should include methodological approaches to correcting errors in the calculations of accounting and reporting. In order to prevent relevant risks, it is important to take specific measures to properly assess and correct identified errors [5].

Thus, the only normative document that defines recommendations for correcting errors in primary documents and accounting registers is the Regulation on documentary support of records in accounting №88 of 24.05.1995 [6].

Errors can be different and have different consequences. Therefore, the ways to correct them are different. In this regard, Regulation №88 provides for three ways to correct errors (Table 1).

Table 1
Methods of correcting accounting errors

Name of the method	The essence and cases of application
<p>The method of additional accounting entries</p>	<p>For example, correction of arithmetic errors: accrual of income for a larger (smaller) amount; registration of inventory at an inflated price, etc. This method is used in situations where the correspondence of the accounts is specified correctly, and the amount of this transaction is incorrect. In such cases, corrections in the accounting registers are made by compiling an additional accounting record with the same correspondence of accounts. The record is made in the amount of the difference between the correct amount of the transaction and the erroneous amount, which was previously reflected in the account. When using this method of eliminating (correcting) an accounting error, it is necessary to draw up a certificate. Correspondence of accounts must correspond to the essence of the business transaction. The data reflected in the accounting certificate are reflected in the relevant memorial order and other registers of accounting.</p>
<p>The method of “red reversal”</p>	<p>Errors in primary documents, accounting records and reports created manually are corrected by red reversal, additional accounting entries or proofreading, according to which incorrect text or figures are crossed out and the correct text or figures are written over the crossed out one. Crossing out is done with one stroke so that the corrected can be read. Errors in the accounting registers for the previous reporting period are corrected by reversal. This method involves drawing up an accounting certificate in which the error (amount, correspondence of invoices) is entered in red ink, ballpoint pen paste, etc. or with a minus sign, and the correct entry (amount, correspondence of invoices) is entered in ink, ballpoint pen paste, etc. dark colour. Entering this data in the accounting register in the month in which the error is detected, eliminates the incorrect entry and displays the correct amount and correspondence of accounting accounts. The certificate must state the cause of the error, reference to the documents and accounting records in which the error occurred, and signed by the employee who drew up the certificate, and after its verification - the chief accountant.</p>

Source: generated by the authors using [6, 7]

Standard 125 specifically identifies ways to correct errors in financial statements. The application of one or another method depends on the materiality or insignificance of the error made. These methods are also used if there have been changes in accounting estimates, changes in accounting policies (ie they affected those transactions that affect the financial result of the budget) (table 2).

Table 2

Methods of correcting errors in the financial statements of budgetary institutions

Method	Content and application	Note
Modification of an item of financial statements that was previously used to reflect income and expenses	The method is relevant for correcting minor errors associated with changes in accounting estimates associated with changes in approaches to the distribution of income and expenses between the relevant reporting periods. In fact, these errors do not affect the result of the estimates of previous periods	The following errors can be given as an example: - incomplete accounting of last year's inventories; - understatement of income and expenses in the previous quarter of the reporting year, etc.
Adjustment of the balance of the financial result of previous periods at the beginning of the reporting year	The method is used to correct significant errors related to previous periods	The following errors can be given as an example: - overstatement or understatement of income and expenses of the previous year; - understatement of the amount of paid-in capital, etc.

Source: [8]

In accordance with the norms of the National Regulation (Standard) of Accounting in the Public Sector 101 “Submission of Financial Statements”, in accounting, any budgetary institution is obliged to:

- avoid underestimation of liabilities and expenses, as well as overestimation of assets and income;
- reflect the transactions performed, based on their essence, rather than approach the accounting formally;
- reflect income and expenses at the time of their occurrence, regardless of the date of receipt of funds;
- display all information about the actual and potential consequences of business transactions.

Errors in financial statements reduce the reliability of information presented. Errors must therefore be discovered and corrected on a timely basis to ensure that users can rely on the information contained in the financial statements.

Prior Period Errors must be corrected retrospectively in the financial statements. Retrospective application means that the correction affects only prior period comparative figures. Current period amounts are unaffected.

Therefore, comparative amounts of each prior period presented which contain errors are restated. If however, an error relates to a reporting period that is before the earliest prior period presented, then the opening balances of assets, liabilities and equity of the earliest prior period presented must be restated.

Accounting Errors discovered after the reporting date but before the authorization of financial statements are adjusting events after the reporting date as per IAS 10 and must therefore be corrected in the current period prior to the issuance of financial statements.

The retrospective correction of accounting errors may be impracticable. This may be the case for example where entity has not collected sufficient data to enable it to determine the effect of correction of an accounting error and it would be unfeasible or impractical to reconstruct such data.

Where impracticability impairs an entity's ability to correct an accounting error retrospectively from the earliest prior period presented, the correction must be applied prospectively from the beginning of the earliest period feasible (which may be the current period).

It should be noted that according to paragraph 3 of Art. 8 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”, responsible for the organization of accounting and

ensuring the recording of all business transactions in primary documents, preservation of processed documents, registers and reports for a specified period but not less than three years, is authorized body (official) that manages the enterprise, or the owner in accordance with the law and the constituent documents.

The chief accountant or the person who maintains the accounting, is responsible in accordance with the rules set out in paragraph 7 of Art. 8 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”:

- ensures compliance with the established uniform methodological principles of accounting, preparation and submission of financial statements in a timely manner;
- organizes control over the reflection in the accounts of all business transactions;
- Participates in the preparation of materials related to shortages and compensation for losses from shortages, theft and damage to assets of the enterprise;
- provides verification of the state of accounting in branches, representative offices, offices and other separate divisions of the enterprise;
- submits in the prescribed manner and in cases provided by the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction”, information to the central executive body implementing state policy in the field of prevention and countering the legalization (laundering) of proceeds of crime, terrorist financing and the financing of the proliferation of weapons of mass destruction.

Thus, it is the chief accountant who controls all stages of the accounting service of the budgetary institution.

Regular internal control is necessary for timely detection of errors and compliance with the principles and rules of accounting in budgetary institutions.

Therefore, in order to avoid errors in accounting, we can recommend the following to budgetary institutions:

- review the developed Regulations on internal control and make appropriate changes to them;
- approve the schedules of internal control, in which it is possible to identify problem areas of accounting for more detailed verification;
- create an internal audit unit or appoint a responsible person, develop, approve and publish strategic and operational plans;
- to control the state of control in accordance with the approved schedules of measures.

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ABORDĂRI ȘI METODE DE EVALUARE A ÎNTREPRINDERII

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Adnotare. În acest articolul se analizează o astfel de categorie economică ca valoarea întreprinderii. Sunt examinate diverse abordări, utilizate pentru evaluarea, precum și metodele pe care le implică. Sunt evidențiate atât laturile pozitive precum și laturile negative ale abordării venitului pentru evaluarea valorii unei întreprinderi, de asemenea și care sunt domeniile de aplicare.

Este prezentată metodologia de calcul prin metoda fluxurile de numerar actualizate folosind rata de actualizare și costul mediu ponderat al capitalului. S-a analizat esența valorii de lichidare a întreprinderii.

Cuvinte cheie: valoarea întreprinderii, venituri, abordare bazată pe venituri, abordare bazată pe comparație, abordare bazată pe cheltuieli, valoarea de lichidare, rata de actualizare.

Abstract. This article analyzes such an economic category as the value of the enterprise. Various approaches, used for evaluation, as well as the methods involved are examined. Both the positive and negative sides of the income approach to assessing the value of a business are highlighted, as well as the areas of application. The methodology for calculating the discounted cash flow method using the discount rate and the weighted average cost of capital is presented. The essence of the liquidation value of the enterprise was analyzed.

Keywords: enterprise value, revenue, revenue-based approach, comparison-based approach, cost-based approach, liquidation value, discount rate.

Principalele abordări de evaluare a valorii unei întreprinderi care sunt utilizate în evaluarea Republicii Moldova și în străine sunt: abordarea pe venit, comparativă și pe cheltuieli.

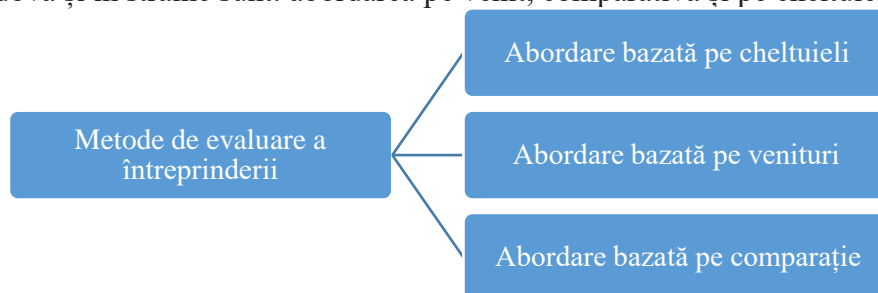


Figura 1. Metode de evaluare a întreprinderii.