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ANALYSIS OF THE FACTORS INFLUENCING DECISION-MAKING ON ORGANISING ENTERPRISE OWN ACCOUNTING SERVICE OR SIGNING CONTRACTS FOR ACCOUNTING SERVICES TO DECREASE THE ACCOUNTING RISKS LEVEL

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Risks provoked by the problems of the business accounting management are a headache of any modern enterprise. It is impossible to avoid them completely because business is impossible without risks. However, it is necessary to evaluate, control and manage the risks.

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1. Analysis of Modern Theories of Business Risks. Classification of Risks

For any business entity doing business and subordinating to the Latvian Republic Regulations in the area of entrepreneurship, taxation and business accounting, a choice between independent businesses accounting and concluding the agreement for accounting service with the specialized accounting company is urgent. On the basis of this choice a quantitative analysis of general cumulative costs for creation and maintenance of own accounting service and monthly payments for services rendered by the accounting company is studied.

A solution of this task is complicated by the fact that besides quantitative indices of the cumulative costs it is necessary to take into account a number of risks arising in the first and the second cases. Therefore, an entrepreneur should determine the priorities of importance and significance of the arising risks.

To run risks consciously, any business entity doing business (further in the text – an enterprise) should base on reliable economic information. It objectively stipulates for the necessity of evaluation and consideration of risks as an obligatory component of all business operations. Ignoring of risks leads to non efficient functioning of an enterprise, loss of competitiveness and, finally, to a bankruptcy.

The experience witnesses that a lawful creation of a threat with the aim of the achievement of a useful result is a necessary condition for the development of a business entity. But, to run risks consciously is possible if its consideration and evaluation are an integral part of the enterprise management system.

A modern economic theory distinguishes two main theories of the business risks. These are classic and non classic theories.

The representatives of the classic school (J. Mill, F. Knight, N.W. Senior etc.) of the business risks theory identifies risks with an expectation of possible losses as a result of the chosen decision and are characterized by them as a certain damage arising due to an unfavourable development of a situation.

The founders of the non classic theory of business risks are such economists as A. Marshall and A. Pigou. The main theses of the neoclassic theory of risks proceed from the fact that an entrepreneur working in conditions of uncertainty and whose profit is a variable value, during a decision-making about a conclusion of a deal, follows two criteria: amount of the expected profit and a value of its possible fluctuations. At that, behaviour of an entrepreneur is conditioned by a concept of a marginal utility, that is, with two versions of investments giving a similar expected profit, an entrepreneur chooses a version with less fluctuations of an expected profit.

Business risks are a category of reproduction, of all its phases and moments – from purchasing of the necessary facilities for production to a production of goods and its realization. Its essence is in the

striving of an entrepreneur to obtain a large profit. A correlation of an index of profit and risks serves as an original factor moving financial, material and labour resources from one branch of economics to other.

In the modern literature devoted to the problems of risks there is no a simple interpretation of a concept „risks” and there are no unified approaches to a classification of the business risks.

Therefore, the business risks might be classified on the basis of various principles. In its turn, risks produced in the business accounting system might be dividend into:

- risks of financial losses;
- risks of invalid information;
- risks of lost benefits.

The existence of risks is connected with an uncertainty, at that, an uncertainty is objectively unavoidable. It is connected with a multivariance of the economic processes passing, with an availability of many factors causing the effect on the economic result.

2. Evaluation of Economic Expediency during Decision-Making about a Form of Business Accounting Management by an Enterprise with Preserving of an Admissible Risk Level

Business accounting and its management as a process is also characterized by a multivariance, because a business accounting is a system of reflecting the information about all events of the economic activity of an enterprise. However, the used methods and ways of information reflecting are defined by the accounting methods established at the enterprise. And, if an enterprise organizes a process of the business accounting independently, then the accounting methods are defined by the enterprise itself. And, if an enterprise uses services of the accounting company, then, as a rule, the accounting methods are defined by this company. And the accounting risks are based on a possible inadequacy of the used accounting methods.

Obviously, a final decision will be made by an enterprise in favour of creation and maintenance of own accounting service only in the case when general costs for the accounting service will be considerably smaller than general costs for payment of the accounting company’s services, i.e. with condition $\left(\frac{C_{\Sigma}}{C}\right)_{OA} < \left(\frac{C_{\Sigma}}{C}\right)_{AS}$. In the opposite case a preference will be given to a strategy of attracting

an outside dedicated accounting company for the accounting support task-decision.

Thus, an answer on the set question is contained in a comparison of expressions

$$(C_{\Sigma} / C)_{OA} < (C_{\Sigma} / C)_{AS}$$

or

$$(C_{\Sigma} / C)_{OA} > (C_{\Sigma} / C)_{AS}$$

or in the detailed form taking into account an admissible level of risks born by the business accounting system

$$(2 - p_1) < 1 + \frac{(1 - p_1)A}{12t_r[1 + K^1(\frac{a}{K})]} + K_0(1 - p_1) \quad (1)$$

or

$$(2 - p_1) > 1 + \frac{(1 - p_1)A}{12t_r[1 + K^1(\frac{a}{K})]} + K_0(1 - p_1). \quad (2)$$

After reduction of both parts of an inequality $(1 - p_1)$ we have

$$1 < \frac{A}{12t_r[1 + \frac{\ln p}{\ln p_1}(\frac{a}{K})]} + K_0 \quad (3)$$

or

$$1 > \frac{A}{12t_r \left[1 + \frac{\ln p}{\ln p_1} \left(\frac{a}{K} \right) \right]} + K_0. \quad (4)$$

Value A in the given expression, as a rule, is smaller than one. Besides, while increasing a probability of the reduction of risk value from level $P = P(t)$ to $P_1 = P_1(t)$ a value $K^1 = \ln p / \ln p_1$ is increasing considerably. As well, taking into account a fact that a term of the financial and tax audit, as a rule, is more than one year, i.e. $t_r > 1$, it is possible to assert that value $A < 1$.

As to the second summand K_0 in the expression, then $K_0 < 1$. At that, if K_0 is closer to one, it means that cost input for the creation and maintenance of the accounting service in view of the additional costs for purchasing of the necessary computer support and the required qualification of the accounting employees is approaching to an amount of expenses for payment of services of the dedicated accounting company, i.e. a maintenance of own accounting service is inexpedient. In other words, with K_0 that is close to one, it is economically more efficient to conclude a contract about the accounting service with the dedicated company.

Thus, with small values of K_0

$$(C_{\Sigma} / C)_{OA} > (C_{\Sigma} / C)_{AS},$$

i.e. it is economically more efficient to conclude a contract about the accounting services with the outside company and to pay its services than to create and maintain own accounting service. Of course, here, a complete complex of the additional factors that may considerably influence the considered inequalities and corresponding made decision has not been taken into account. They should be taken into account in each special case in the form of the additional summands in the considered inequalities.

3. Effect of Production Scale and Decision-Making about a Form of Business Accounting Management

Comparing value of costs for the maintenance of own accounting service to costs for payment of services of the accounting company, it should be stressed that they are classified as constant costs of an enterprise. And, it means, that with the growth of the business activity of an enterprise (an expansion of activity, growth of amounts of production and sales) constant costs will not change, i.e. they will not increase. Thus, the enterprises with a different level of the business activity should base on the specific constant costs for decision-making about the efficiency of the creation and maintenance of own accounting service or a conclusion of a contract for the accounting services.

In its turn, a level of the business activity in many aspects depends on the stage of a life cycle of an enterprise. Duration of a life cycle of an enterprise for various countries and different branches will be various. However, a curve of a life cycle consists of separate segments (stages), each describing a dependency of an enterprise on the outer and inner conditions arising in a certain period of time, will be similar for all business entities. At each stage there are specific groups of the accounting risks influencing the process of an enterprise functioning.

Therefore, when making decision, not only qualitative indices characterizing specific constant costs are evaluated but a stage of an enterprise's life-cycle.

Separately, it should be mentioned that at first sight the simple qualitative indices of the specific constant costs are not simple in the practical dimension. So, numerous researches have shown that constant costs are constant just quite conditionally. And, it means that dependence between a level of the business activity, amount of costs and a value of profit has a non linear character. This, in its turn, speaks about the fact that during decision-making about the expediency of creation and maintenance of own accounting service or a conclusion of a contract for the accounting service it is necessary to evaluate the level of sensitiveness of an enterprise's profit to changes of constant costs as well.

The experience of the developed foreign countries witnesses that in the majority of cases companies resort to concluding of contracts for the accounting service with the dedicated companies. Obviously, here a decisive factor is a comparatively low cost of the services of such companies, and at that, a high level of costs for the maintenance of own accounting service. However, on the territory of Latvia such practice is typical not for all enterprises. And, in most cases, it is explained by the existence of the notorious “commercial secret” that could not be trusted to an outside company.

It should be noted that the mentioned above risks have to be evaluated not only with the help of the quantitative characteristics, but qualitative too.

L.A. Bernstein defines the accounting risks as a complex (ambivalent) category that:

- ⇒ has a first reason factor of human nature;
- ⇒ arises due to an inaccuracy typical for the accounting process and that consists in an existence of the alternative principles of the business accounting, a fuzzy criterion, which defines them, and, therefore, a fuzziness of standards of the business accounting themselves [5].

Especially important role belongs to information in the process of the qualitative and quantitative analysis of the accounting and book-keeping risks.

A qualitative analysis assumes: selection of sources and reasons of risks, stages and works, which performance cause the appearance of risks, identification (ascertainment) of all possible risks; detection of the practical benefits and possible negative consequences, which may appear during the implementing of the risk containing decision.

In the process of the qualitative analysis it is important to establish not only all types of risks, which threaten an enterprise, but also, where possible, to detect possible losses of resources accompanying the attachment of the risk events. The results of the qualitative analysis serve as important initial information for the performance of the quantitative analysis.

The quantitative analysis assumes a numerical definition of separate risks and risks of the made decision as a whole. At this stage the numerical values of probability of the risk events attachment and their consequences are determined, the numerical evaluation of the degree and level of risks is performed, and also the admissible level of risks appropriate in the given certain situation.

In the process of the qualitative analysis a wide group of risks could be selected, which an enterprise will be forced to face with during the implementation of the made decision. At that, a probability of each risk is different as well as a sum of losses that might be caused by them. A qualitative evaluation of probability of separate risks attachment and their cost allows selecting the most probable and costly risks that will be an object of the further analysis for decision-making. Risk management including the accounting risks, is organically included in the enterprise management system. First of all, a choice of the risk management method is connected with the setting of business goals.

4. Conclusions

When we characterize a modern society it is often called a society with the unlimited opportunities. At that, this characteristic refers not only to the opportunities of a separate human, but also to the opportunities of business entities. At the same time, a choice of the offered opportunities and versions of existence and development also becomes urgent. The decision-making must combine a striving to the achievement of the set goal and development and a preservation of the already won positions. Therefore, interconnection between risks that is necessary to be taken and an income that is possible to expect, is a central problem in all modern managerial decisions.

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