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## METHODOLOGICAL ASPECTS OF ACCOUNTING IN LITHUANIAN COMPANIES

**Abstract.** Accounting policy is based on general principles, methods and rules. It is one of the seventeen procedures to be performed at the end of the financial year. Accounting is the essential tool in the management of the company. Multistage price setting is recommended as a guarantee of maximum profit.

### 1. Introduction

The complicated and continuously changing environment of accounting creates the need for more accurate and relevant accounting information. Therefore, accounting itself as well as its priorities must undergo changes, including the way of thinking of both accountants and businessmen. Basic changes in accounting include its transition from the passive technique of recording economic processes to the active constituent which, apart from being successful, results in greater difficulties in the period of its formation. What is becoming increasingly important in accounting is provision of full and reliable information related to the operation of the company and its assets, which is absolutely necessary for the inside users of the accounting data, i.e. for the managers, participants and owners of the company's assets, as well as for the outside users of the data, i.e. investors and creditors. The information available is also utilized by the auditors to check whether the economic operations of the company are in compliance with the legislation of the Republic of Lithuania as well as whether they

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are reasonable. Also, the information serves as a tool to check the amount of assets, their mobility, liabilities and whether the materials and human as well as financial resources are made use of in accordance with the approved standards, norms and estimates. It could also ensure the avoidance of negative results in economic operations of the company and reveal the existence of inner resources required to promote its financial dealings.

The realization of the accounting tasks depends on the description (formalization) of all processes occurring in the company at the end of the financial year and on the accounting policy which provide all conditions necessary for the improvement of the accounting methodology.

All the economic dealings of the company must be recorded and the information should be based on the main principles of accounting. The occurrence and development of these principles are stipulated by the fact that the financial statements must accurately reflect the information on dealings occurring during a certain period of time; the information should not be misleading but, rather, useful for the potential investors. The general principles of accounting defining the main features of its functioning are the following: the principle of accounting entity (economic unit), the principle of the company's continuous operation, the principle of monetary evaluation and the principle of periodicity. The four postulates of accounting mentioned above supplement the following principles: the principle of expenses (cost price), the principle of data accumulation, the principle of recording revenue and the principle of comparison.

All the above mentioned principles mean that every business company is an individual unit of accounting separated from the owners of the company and other companies. Accounting for assets and liabilities of the company is disjoined from the accounting of the owners' assets. The board of the company are responsible to the owners for the operation of the company. Every company is assumed to be operating for a long time to be able to realize all projects and fulfil all liabilities. In accounting, all supplies, activities and changes in assets are measured in terms of money. Economic operation of the company is divided into time intervals.

By means of accounting the information about economic activities of the company is conveyed to those interested in the economic results of the company, and, primarily, in the profit. The flow of information must be utilized at the highest degree.

## **2. The main aspects of the accounting policy**

The development of market relations and the growth of technology level result in the possibility to meet the demands of the most fastidious customers. An increasing number of companies are becoming very specific,

or even unique. More often than not the changes in the accounting methodology bring about dramatic changes in the final results of operation of individual companies and, occasionally, even of the international concerns. It is for this reason that one of the specific purposes of the accounting system adjusted to the market relations is to correctly and impartially reflect the economic processes of the company and its financial situation.

The success of the company to a great extent depends on the accounting policies of the company. The 9<sup>th</sup> article of the Law of Accounting provides for the following: the accounting policy comprises general principles, methods and features of accounting designed for the organization of accounting and financial accountability of the economic entity; the management of the economic entity is obliged to establish the policy of accounting and ensure its implementation taking into consideration the concrete conditions, the nature of business and the operating standards. The following are the main aspects of the company's accounting policy (fig. 1).

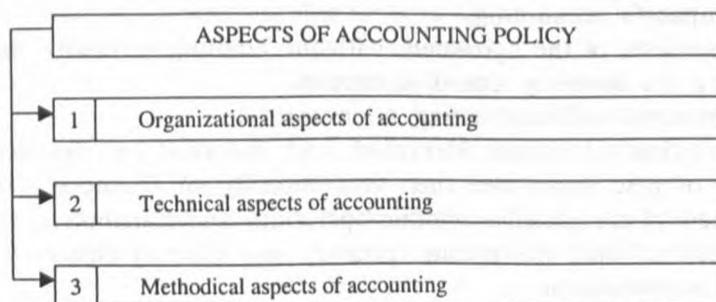


Fig. 1. Main aspects of accounting policy

The management of the company are obliged to control the accounting policy by means of its decisions to be publicized as well as by explanatory notes of financial accounts. This is required by the government regulations (9<sup>th</sup> article, 2<sup>nd</sup> paragraph of the Law of Accounting).

The aspects of the elements of accounting policy of the 1<sup>st</sup> and 2<sup>nd</sup> group are analyzed by the science of accounting. The 3<sup>rd</sup> group comprising the issues of accounting and accountability is dealt with by the science of creative accounting.

The management of the company must control the accounting policy as provided for in the Law of Accounting of the Republic of Lithuania.

### 3. Formalization of procedures at the end of the financial year

Practical activities indicate a few different things: presently, the existing technologies of computer-aided accounting very often fail to encompass all operations related to the final record of the accounts at the end of the year as well as the annual accountability. The people who install the programmes must formalize (describe) the standard accounting operations in the accounting software so that they could be practically applied. As described below, the formalized procedures encompass "the review and approval of the rules determining the company's accounting policy and financial accountability" (procedure 1 of the accounting). The following are the groups of the accounting procedures at the end of the financial year:

- Review and approval of rules determining the accounting policy and financial accountability.
- The account of the company's taxes, review and approval of the rules determining the policy of preparing accountability of payments.
- Review, supplement and approval of the individual plan of accounts of the company's accounting.
- Preparation of the agreement with the auditing company and signing or updating the formerly signed agreement.
- Preparation and conducting of inventory.
- Correction of errors identified and recorded in the accounting. Recording of new errors and their correction in the financial statement.
- Review of completed economic operations and distributive documents.
- Review of valid documents (primary and official) especially of those related to accumulation.
- Review of documents (advertisements) confirming the economic operations.
- Check-up of all obligatory taxes having been accounted for and settled in the course of the accounting year.
- Preparation of advanced balance sheet.
- Correction of inscriptions.
- The formation of reserves and postponements designed for the distribution of profit.
- Preparation of preliminary annual financial accounting.
- Recording of the owner's decisions and their reflection in accountants.
- Fulfilment of obligatory procedures in the accounts following the general meeting of shareholders.
- Preparation of primary and accumulated documents, registers, statements and other documents of the accounting department and their transfer to the archives.

The developed algorithm of standard accounting procedures for the end of the financial year facilitates their description (formalization) in the software of computer-aided accounting – an increasing number of enterprises make use of the programmes of computerized accounting for the improvement of their work efficiency.

#### 4. Multistage price setting as a guarantee of maximum profit

The development of IT has encouraged competition, expanded the market scope as well as provided the rapid growth of business and new opportunities. The efficient management of all aspects of business results in the formation of favourable conditions for the company. It is the appropriate information basis that ensures the efficient management of all basic processes in business and, eventually, the profit. The profit of the company largely depends on the scale of the production costs. Their extent is a very important factor in setting the internal wholesale prices, therefore, the calculation of production costs as well as their reduction is the essential step to be made by every business company.

One of the methodological aspects of accounting is the calculation of production costs which are closely related to the price setting process. Multi-stage price setting is considered to be the method of establishing the price. According to the system of four equations given below, the optimal price of the product (curd) has been calculated. The given system of equations is a completed model of price setting in terms of which the profit level could be readily calculated. There is only one variable and controlled value, i.e. the price. The demand and cost are constant values.

For any level of demand and cost the price must be such as to bring the biggest profit. The presented model of “multistage price setting” establishes the optimal price of the product which ensures the maximum profit for the company. The analysis of practical application of the model in Lithuanian dairy farms is the evidence of its validity. The graphical picture of the dependence between the curd price and demand is presented in fig. 2. The relationship between cost and demand could be represented by the following equation:

$$U = a + z \cdot k \quad (1)$$

where:

- $U$  is the sales volume,
- $a, z$  are the coefficients indicating the relationship between price and sales amount,

- $a$  is the straight segment of the line,
- $z$  is the inclination angle of the line,
- $k$  is the price.

The costs are described as follows:

$$S = Sp + Sk \cdot u \quad (2)$$

where:

- $Sp$  is constant costs,
- $Sk$  is variable product costs,
- $u$  is the sales amount.

The coefficients  $a$  and  $z$  are calculated by the least squares method:

$$\Sigma u = a \cdot n + z \Sigma k$$

$$\Sigma \{u \cdot k\} = a \Sigma k + z \Sigma k^2$$

where  $n$  is the number of members in the row.

Now the revenue can be calculated, too:

$$P = I - S \quad (3)$$

The income obtained on selling the product is calculated as follows:

$$I = k \cdot u \quad (4)$$

The system of four equations forms the completed model of price setting by means of which the level of profit can be readily calculated. It includes only one variable and controlled value, i.e. price, the demand and cost being constant (fixed) values.

For different levels of demand and cost such a price must be selected as to ensure the biggest profit.

The possible results are based on the example of a real dairy plant in accounting the sales of a single product out of all production output, i.e. curd, are presented below.

Table 1. Data of the dairy plant on curd sales throughout the whole year 2001

	2001					
	January	February	March	April	May	Jun
Volume, tonnes	81	67	120	107	216	17
Net Price, Lt	455	401	717	634	1 057	104
Price of 1 tonne, Lt	5 617	5 985	5 975	5 925	4 893	6 117
Constant costs (expenses), Lt	20 000	20 000	20 000	20 000	20 000	20 000
Variable costs (expenses), Lt	310 709	260 463	450 680	404 023	795 224	81 013
Profit, Lt	144 291	140 537	266 320	229 977	261 776	22 987
	July	August	September	October	November	December
Volume, tonnes	79	81	106	122	136	119
Net price, Lt	474	504	657	751	831	783
Price of 1 tonne, Lt	6 000	6 222	6 198	6 155	6 110	6 579
Constant costs (expenses), Lt	20 000	20 000	20 000	20 000	20 000	20 000
Variable costs (expenses), Lt	303 531	310 709	400 434	457 858	508 104	447 091
Profit, Lt	170 469	193 291	2 566 666	293 142	322 896	335 909

The relationship between the price of curd and demand is represented in fig. 2.

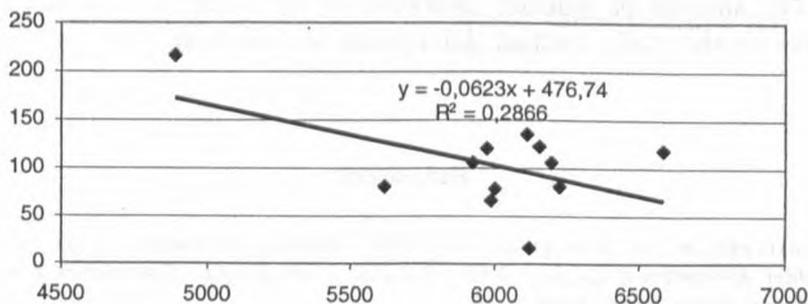


Fig. 2. The dependence of the price of 1 tonne of curd on sales volume

In the above figures the influence of the season has been neglected. The sales volume depending on the price varies in the following way:

$$U = 476,63 - 0,0623 \cdot k$$

The negative coefficient  $z = -0,0623$  indicates that the sales volume decreases with the increase of prices. The correlation coefficient  $D = R^2 \cdot 100\% = 28,64\%$  shows that the value of sales volume 28,64% depends

on the price. The data presented in table 1 show that the highest profit was obtained in the 12<sup>th</sup> month of the year 2001, when 1 tonne of curd was sold for 6 579 Lt.

## 5. Conclusions

The success of business enterprises to a great extent depends on the accounting policy of the enterprise. The really existing policy of accounting is a guarantee for the improvement of the accounting methodology.

- Main aspects of accounting organization:
  - organizational aspects of accounting;
  - technical aspects of accounting;
  - methodological aspects of accounting.
- The standard accounting operations carried out in the enterprise at the end of the financial year must be described (formalized) in the software of the computer-aided accounting.
- Multistage price setting is a guarantee for obtaining maximum profit.
- The proposed model of multistage price setting sets the optimum price for the product which ensures the maximum profit for the enterprise.
- The analysis of practical operation of the model is carried out with reference to the really existing dairy plant in Lithuania.

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**METODYCZNE ASPEKTY RACHUNKOWOŚCI  
W LITEWSKICH PRZEDSIĘBIORSTWACH**

(Streszczenie)

Polityka rachunkowości obejmuje zasady i metody działania, wybrane i konsekwentnie stosowane przez podmiot gospodarczy. Jest to jedna z informacji, jaką jednostka powinna podać pod koniec roku finansowego. Rachunkowość stanowi podstawowy instrument zarządzania przedsiębiorstwem. W celu osiągnięcia maksymalnych zysków zaleca się stosowanie wielostopniowej kalkulacji cen i kosztów.

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**LIETUVOS VERSLO ĮMONIŲ APSKAITOS METODOLOGINIAI ASPEKTAI**

(Santrauka)

Apskaitos politika – tai apskaitos vedimo įmonėje bendrieji principai, metodai ir taisyklės. Viena iš septyniolikos finansinių metų pabaigos procedūrų yra apskaitos politika. Įmonės vadybininko perspektyvinio valdymo įrankis yra apskaita. Rekomenduojamas taikyti daugiapakopės kainodaros modelis – maksimalaus pelno garantas.