Iryna LIUBEZNA,
Nataliia HALUSHKA

AUDIT EVALUATION OF EFFECTIVENESS OF BILL TRANSACTIONS IMPLEMENTATION

Abstract

The theoretical and practical aspects of the audit of bill transactions are considered. The method of analytical evaluation of bill transactions with the consideration of the dual nature of a bill as a complex financial instrument (financial assets designated and not designated for resale and financial liability designated not for resale).

Key words:

Financial and economic activity, enterprise, bill, bill transactions, audit of bill transactions, evaluation of effectiveness of bill transactions.

Liubezna Iryna, Cand. of Economic Sciences, Ternopil National Economic University, Ukraine.
Halushka Nataliia, Post-Graduate Student, Kyiv Vadym Hetman National Economic University, Ukraine.

JEL: M42.

Problem definition. In conditions of intensification of competitive struggle of enterprises at the market, which needs the increase of the level of management and requires more analytical and professional approach to the fulfillment of different operations and services rendering, audit is paid a special attention. Bill transactions are an important subject of audit. It is connected with the increase of the role of bill instrument in the payment system of the country, inasmuch as the bill can be considered as an alternative source of resources of any economic entity. The peculiarity of interrelations among the entities of bill legislation, the lack of the unique and constant bill legislation, considerable riskiness of bill transactions compels the economic entities to control and improve the fulfillment of the given transactions.

Analysis of the latest researches and publications. A significant contribution into the theoretical development of the problems of organization and methodology of bill transactions audit was made by such scholars – economists as M. Bilukha, O. Bolshakova, L. Havrylovska, Yu. Kilaru, V. Savchenko, V. Sopko, O. Petryk, B. Usach and others. But scientists examine not only the theoretical aspect of bill transactions audit, without paying attention to the practical problems. Therefore, there are lots of debating points, which require further scientific researches and their practical application.

Problems connected with the development of domestic enterprises and provision of effectiveness of their functioning requires deciding of a range of important issues. One of them is organization of audit work of bill transactions.

Application of the bill transactions audit in practice promotes the revelation of negative developments in audit, determination of reasons of their emergence, development of recommendations towards avoiding of mistakes in future. The above mentioned facts promote the financial recovery, increase the profitableness and market attractiveness of enterprises, involvement of investment projects into their work.

Analytical estimation of efficiency of bill's usage in the estimations of domestic enterprises or audit of efficiency of bills transactions implementation is an important type of bill transactions audit. In order to realize the estimation of efficiency of bills' usage in the economic turnover, there are lots of important tasks for auditor. First, it is necessary to examine and evaluate the funds transfer network, which are used, namely:

- to examine the structure of different forms of calculation under contracts, including prepayment, from the point of view repayment terms,

on using of means of payment (without usage of means of payment, in other words calculations by requirements, instructions and with their usage).

- to estimate the level of fulfillment of payment liabilities, the partners' level of fulfillment of payment liabilities before the enterprise;

- to analyze the methods, which are used to provide the payment liabilities (lending and guarantees);

- to examine the expediency and proper filling out of payment documentation, expediency of examination of claims.

It is not less important to examine the structure of bill indebtedness:

- according to the time of redemption ;

- according to the types of economic entities (customers-debtors (borrowers), shop assistants-creditors);

- according to the specific weight of the separate big debtors;

- according to the level of indebtedness (before enterprises and its structural units etc).

The feasibility and expediency of the adopted decisions of issue, receipt and purchase of bills should be analyzed. The auditor should analyze the purpose-oriented use of resources, received from the bill business. It is useful to examine the consistency of reported data on bills movement. The facts of payment of non-commodity bills should be examined; the measures on provision of non-commodity part of bills should be developed. It is important to consider how the usage of bills reflected on the speed of calculations and financial situation of the enterprise. It is necessary to estimate the level of confidence and liquidity of bills, the amounts of indebtedness to deliverers and contractors, which are assured by the bills payable.

Nowadays, the note-backed lending is very popular. Unlike bills transactions, while note-backed lending; the borrower has the right of ownership on the pawned bills. In case of non-redemption of credits on time, the bank has a right to realize the pawned stock in accordance with the procedure established by the legislation. At that, it is necessary to analyze the amount of the obtained credits, the share of bills in their provision and the share of credits, realized by the bank, the reasons of such realization. Besides, it is expedient to examine how the usage of bills provides the timeliness of calculations for commodity stocks and supplies; acts as a mean of redemption of different liabilities, including exchange liabilities.

Determination and estimation of the reasons of nonobservance of the repayment discipline, development of the probable variants of its normalization

(control of the financial situation of counteragents, mutual checking of indebtedness, monitoring of the timeliness redemption of debts, payoff distribution according to the priority ranking), optimization of calculations (ranking of counteragents according to the category of risk and more elaborated policy of contraction, construction of payments charts terminates the audit of the funds transfer network.

Let us consider the certain procedures of the performance audit of bill's circulation. Such estimation of calculations on issued and received bills shows the ability of enterprise to provide commodity credits to their debtors from the one side and from the other side, shows the confidence of creditors and corresponding reputation in the commercial world of the given enterprises.

To analyze the condition of calculations on issued and received commodity bills, it is necessary to calculate the specific weight of indebtedness under them in the total balance and consequently, in the amount of debtor and creditor indebtedness in whole. It is required to define their place in the balance sheet of financial standing, to compare the relative indexes of given articles over the years and determine the corresponding tendencies towards increase or decrease. The specific weight of bills, receivable in the balance sheet total, is defined by the correlation of data according to the article 150 «Bills receivable» to the total of assets, and bills payable – correlation of data according to the article 520 «Bills payable» to the total of liability side of the balance-sheet.

To define the influence of bills, purchased on the debtor indebtedness, it is necessary to apply the data of the article 220 «Current financial investments» and form 5 «Notes to the annual financial reporting», chapter 4 article 425, excluding other financial investments, which are maintained according to the fair value. Therefore, it is better to use accumulated information from the offered «Information concerning analytical accounting of bills purchased» 4.2.1. To define the specific weight of bills, purchased in balance – sheet total, we should calculate the relation of their amount according tot the data received, to the total of the assets side of the balance-sheet. The significance of the calculation of relative indexes of bills receivable, payable and purchased provides the possibility to compare the analogical indexes of different enterprises and the influence of inflation processes is eliminated.

Having compared the data, received from the separate reporting periods at the beginning or at the end of each quarter, year) we can see a tendency to increase or decrease of specific weight of receivables and payables surplus according to participation of bills in balance – sheet total in the calculations. For example, the specific weight of current receivables on bills receivable in the general value of negotiable assets by means of calculation of ratio of amount according to the article 150 of the assets side of the balance sheet «Bills receivable» to the amount of the second its chapter «Negotiable assets». Specific weight of the current receivables, provided by bills in its general value is calculated by the division of the 150 «Bills receivable» on the amount of the current receivables, the payments on which are expected over the period of 12 months after the period under report.

320

I r y n a   L i u b e z n a ,   N a t a l i i a   H a l u s h k a
Audit Evaluation of Effectiveness
of Bill Transactions Implementation

We can complete a table to depict the analyzed period under report and corresponding values of the calculated indexes.

Analysis of such table will allow to define the already formed tendencies and to make conclusions. Thus, the increase of the specific weight of the bills receivable and purchased in the total sum of negotiable assets and in the sum of debtor indebtedness is a positive phenomenon, inasmuch as bill liabilities in comparison with the usual debtor indebtedness are more important: bill is a highly liquid asset, and therefore in any time it can be alienated or pledged into the third person up to the beginning of the term of its redemption. It is not occasionally that one of the most important functions of bill is the function of means of payment.

To define the specific weight of the doubtful debtor indebtedness as a part of bill indebtedness, we offer to define its relative amount both as to the whole article 150 «Bills receivable», and in the total amount of negotiable assets debtor indebtedness, which will be a negative phenomenon, speaking about the level of non-payment on bills. Specific weight of the current receivables, provided by the bills payable in total is defined by the ratio of sum of the article 520 «Bills payable» to the total cycle of the chapter 4 «Current liabilities» of the liability side of the balance-sheet. Received indicators identify that part of creditor indebtedness, the availability of which lays an additional responsibility on the enterprise, inasmuch as the untimely redemption of bill liabilities will cause the protest of bill, and additional expenditures and loss of business reputation. Increase of the specific weight of creditor indebtedness, provided by the bills, issued by organization, in its total volume will show the reputation of enterprise as more confident bill debtor.

Comparison of the calculated indicators according to bills payable for the range of periods under report will allow to make some conclusions. But we should estimate them very carefully. For example, decrease of the specific weight of creditor indebtedness, provided by the bills payable speaks about the loss of confidence of suppliers to the bill debtor and their unwillingness to settle in bills from the one hand and about the possibility of financial stabilization and ability of enterprise to settle in cash with creditors.

Indicators of dynamics of absolute and relative growth of debtor and creditor indebtedness provided by bills carries some information. Absolute growth on bills receivable is defined as difference between bills, received at the end and at the beginning of the period under report. A relative growth on bills receivable is defined by the ratio of absolute growth on bills receivable to the sum of bills, received at the beginning of the period under report. The ratio of debtor indebtedness on bills receivable at the end of the period under report to the debtor indebtedness on bills receivable at the beginning of the period under report defines the rate of growth of this indebtedness, and the ratio of absolute growth at the

beginning and at the end of the period under report defines the rate of growth of this indebtedness.

The given indicators enable to estimate the absolute and relative growth of indebtedness at the different data of the period under report and the rates of this growth. As in the previous analysis, the increase of these indicators at the end of the period under report in comparison with its beginning will be considered as a positive moment, but special attention I required sideways the enterprises' administration, as of calculations and especially bill due date.

Another kind of analytical estimation is the analysis of composition (structure) of bills. The given direction of analysis is very important, inasmuch as it allows not only to show, how the overall picture on bills, but also to make conclusions concerning concrete debtor, who provides his indebtedness by bills. In the course of such analysis conducting, we can see from whom organization accepts bills most of all, who among the borrowers disciplinary discharges bill liabilities and therefore, define the range of debtors, trusted. For this purpose, we complete a table, which contains information about all debtors and creditors: surplus of indebtedness on bills at the beginning of the year; bills, payable, receivable and purchased over the year, bills discharged and alienated for the same period of time and the surplus of bill indebtedness.

The essential information for the estimation of effectiveness of transactions with bills should contain the number, value and specific weight of bills, discharged and alienated on transmissive endorsement or cession according to the kinds of civil and legal agreements (purchase and sale (including consideration, purchase by the drawer of the bill), donation, likewise transferred on pledging and relegated endorsement.

Effectiveness of usage of similar financial instruments is in the fact that enterprise-supplier, using bills in calculations, earns interest both in national and foreign currency, likewise discount upon purchase of non interest bearing note and premium while it's re-selling. Indicators of effectiveness of bills usage, which show the level of their influence on the financial situation and financial results of organizations' activity, are very important. According to the data balance and its annex (Form № 5) we can conduct an analysis of dynamic of changes of bills, receivable and purchased, and payable according to their kinds (ordinary, transfer bill) for the period under report according to the data of the previous year, and upon availability of reporting data for the range of periods we can analyze the dynamics (trend analysis), in other words, to calculate absolute and relative deviations towards one or another base and define absolute or relative deviations.

Consideration of dynamics of increase of debtor indebtedness from the point of view of liquidity of assets side of the balance-sheet can be a positive fact. But the growth of debtor indebtedness leads to the slow down of the negotiation of assets which in its turn speaks about the necessity of further analysis of the enterprise business activity. The rates of growth of creditor indebtedness on bills

322

I r y n a   L i u b e z n a ,   N a t a l i i a   H a l u s h k a
Audit Evaluation of Effectiveness
of Bill Transactions Implementation

should be considered from the two points of view: as an impossibility of settlement in cash on its liabilities and ability to use such payment instrument as a bill towards delay in payment.

It is very important to analyze the financial situation and complete the balance of bill indebtedness. We offer to define the indicator of availability of bill means of payments as a difference between debtor and creditor indebtedness on bills. On our opinion, the given indicator speaks about the current bill's balance, inasmuch as bill is the instrument of cash settlements, in fact realizing money functions. It is very important in conditions of financial instability and chronic non-payments, where the bill in the process of its turnover can cancel lots of different liabilities to the date of payment on it. Drawing up the debtor indebtedness on products (goods, works, services) by bill, the enterprise delays in payment, where the bill is the instrument of credit arrangement, bringing certain income to enterprise. Besides it, in practice the realization of this function of bills provides the continuity and acceleration of rates of economic turnover.

The final result of bills usage is depicted in the general financial results of economic activity: in the increase of the volumes of products realization, increase of profit, payment ability, and firmness of enterprise financial situation. Together with that, this result can be defined by means of specific indicators, which characterize the profitableness and business activity of enterprise.

To extend the analytic field we recommend to introduce the complex of additional indicators, which specify the profitableness of circulation of bills and business activity connected with bill transactions. The indicators of profitableness of circulation of bills include the calculation of margin of profit of bills receivable and payable. The given indicator is defined as a share from shifting of profits to taxation on the prime cost of bills receivable and purchased, adjusted to the specific weight of the given bills in the negotiable assets side of the balance sheet:

$$\varPi p_{\text{в}} = \frac{\varPi}{B_{\text{наб}}} \cdot k \, , \qquad\qquad (1)$$

where $\varPi_{p\text{в}}$ – profitableness of bills receivable and purchased

$\varPi$ – before-tax profit for the period under report;

$B_{\text{наб}}$ – prime cost of the bills receivable and purchased for the period under report;

k – specific weight of the bills receivable and purchased bills in the negotiable assets side of the balance sheet for the period under report.

Calculation of the profit ratio can be transformed, multiplying numerator and denominator on the same value – net profit, revenues from sales. Received in such a way analytic model allows to determine the influence on profitableness

of bills of two factors – changes of the profit margin and velocity change of negotiability of bills receivable and purchased.

We determine such indicators of business activity:

- coefficient of negotiability of the bills receivable and purchased as a share from division of net profit, revenues from sales on the prime cost of the bills receivable and purchased, which is adjusted on the specific weight of the given bills in the negotiable assets side of the balance sheet. The given indicator determines the increase or decrease of the commercial credit, provided by bills, which is granted by the enterprise; where the increase of the coefficient shows the reduction of the volumes of granted commercial credit, and the decrease of the coefficient – visa verse, the increase of the volumes of granted commercial credit;

$$K_{o\delta} = \frac{Д_{чист}}{B_{наб}} \cdot k ,$$ (2)

where $K_{o\delta}$ – coefficient of negotiability;

$Д_{чист}$ – net profit, revenue from sales.

- the medium term of negotiability of the bills receivable and purchased, as a share from division of the number of days in the analyzed period on the coefficient of negotiability of the bills receivable and purchased, which is adjusted on the specific weight of the given bills in the negotiable assets side of the balance sheet, per day. Or as a share from division of the derivative of prime cost or average balance of the of the bills receivable and purchased, which is adjusted on the specific weight of the given bills in the negotiable assets side of the balance sheet and number of days in the analyzed period on the net profit, revenue from sales per day. The given indicator characterizes the medium term of redemption or sale of the bills receivable and purchased on the balance sheet;

$$O_{\partial} = \frac{360}{K_{o\delta}} ,$$ (3)

where O_{∂} – medium term of negotiability of bills

- coefficient of negotiability of the short-term bills payable, as a share from division of the net profit, revenue from sales or cash assets in the prime cost of the bills payable, which is adjusted on the specific weight of the given bills in the current liabilities of the balance. The above noted indicator defines the increase or decrease of the commercial credit, provided by the bills, which are obtained by the enterprise; where the increase of the coefficient speaks about the reduction of the volumes received commercial credit, and decrease of the coefficient –

visa verse – about the increase of the volumes of such. The formula is analogical to the calculation of the coefficient of negotiability of bills receivable and purchased;

• medium term of negotiability of the short-term bills payable, as a share from division of the number of days in the analyzed period on the coefficient of negotiability of the bills payable, which is adjusted on the specific weight of the given bills in the current liabilities of balance, per days. Or as a share from division of derivative of the prime cost of the bills payable, which is adjusted on the specific weight of the given bills in the current liabilities of balance and number of days in the analyzed on the net profit from sales or monetary cash, per days. The given shows the medium term of redemption of the bills payable; the formula is analogical to the calculation of the coefficient of negotiability of bills receivable and purchased;

• medium term of negotiability of the one bill receivable and purchased or payable per days as a share from division of derivative of the average sum of bill indebtedness, which is adjusted on the specific weight of the given bills in negotiable assets or current liabilities of balance and number of days in the analyzed period on the net profit from products, goods, works, services realization. Where the average um of bill liability (debtor or creditor) on the one bill is defined as a share from division: of the average sum of the bills receivable and purchased or payable on the average number of such bills.

$$O_{\partial} = \frac{360 \bullet B}{Д_{чист} \bullet \kappa_{в}} \cdot k \,, \qquad (4)$$

where B – average sum of bills receivable and purchased or payable;

$\kappa_{в}$ – average number of such bills.

The basic feature of the effective management of bills turnover dynamics is: excess of the rates of increase of revenue sales or profit over the rates of increase of the volumes of bills turnover. The main factors of bills profitableness increase is the speed-up of their negotiability and raise in profitability of sales. It is possible to define the influence of each above mentioned indicators by means absolute and relative differences.

To analyze the effective usage of bills a differential approach to estimate them is used.

For that purpose it is necessary to group and classify bills according to different features. The bills are analyzed according to structure, source of origin, kinds, period of use, level of legal provision, prestige value, degree of liquidity, and risk of investments etc.

According to the source of origin, there are such groups of bills: bills payable, bills purchased by means of civil and legal agreements, purchase-sale, including purchase by drawer of a bill; exchange, barter, including bill payment and donation. To analyze the bill indebtedness (debtor and creditor) due to the time for repayment we offer to group bills according to the terms of their support on balance sheet: 6 months, 9 months, 12 months, more than 1 year. Comparing the terms of redemption of bill liability in two complementary periods, we obtain information about the medium terms of bill turnover and possibilities of own resources maneuvering. Analyzing the structure of indebtedness on bills up to the redemption, it is expedient to divide it for current, obtained in accordance with the short-term bills receivable, which are withhold to the redemption and for current long-term bills, receivable as well as indebtedness of the bills purchased, which are withhold to the redemption.

Estimation of the availability of bills with the overdue terms of redemption and in the part of their timely appeal (in non-payment or non-acceptance), which can be analyzed in the absolute amount and according tot the specific weight. Also it is expedient to calculate and analyze the percentage (coefficient) of the dishonored bills, which is defined as a share from division: of the total gross amount of bills on the amount of dishonored bills. Such data allow to analyzed not only the total amount of bills receivable and purchased in dynamics in particular with the overdue terms of redemption but also examine the changes of the specific weight and amount of the timely dishonored bills and non-dishonored bills.

Conclusions. Investigation of the theoretical and practical aspects of the audit of bill transactions and the estimation of effectiveness of fills transactions fulfillment enables to conclude the following:

1. Modern trends of development of native enterprises and provision of effectiveness of their functioning requires solving a range of tasks. One of them is organization of bill transactions audit estimation of their fulfillment. It is considered that theoretical and organization backgrounds and trends of practical application of such audit require further examinations.

2. Usage of audit of bills transactions effectiveness at Ukrainian enterprises will allow to satisfy the needs of users of information: owners, investors, creditors, state authorities, third persons etc, if the question concerning provision of circulating assets of enterprises towards increase of its competitiveness and market attractiveness is raised.

3. Analytical estimation of effectiveness of bills transactions fulfillment taking into consideration the dual nature of bill as a complex financial instrument will allow to discover the disadvantages in the methodology of their accounting, define the reasons of their emergence, and develop recommendations concerning their avoidance in future, for the purpose of financial recovery of enterprise, increase of profitability, market attractiveness, involvement of investments.

326

I r y n a   L i u b e z n a ,   N a t a l i i a   H a l u s h k a
Audit Evaluation of Effectiveness
of Bill Transactions Implementation

Bibliography

1. Білуха М. Т. Курс аудиту: Підручник / М. Т. Білуха. – [2-е вид., перероб.]. – К.: Вища шк.: Т-во «Знання», КОО, 1999. – 574 с.

2. Большакова О. Методика оперативного аналізу та контролю вексельних операцій суб'єктів господарської діяльності / О. Большакова // Вісник Київського національного. торгово-економічного університету. – 2003. – № 1.– С. 78–84.

3. Кулаковська Л. П. Основи аудиту: навч. посіб. [для студентів вищих закладів освіти]. / Л. П. Кулаковська, Ю. В. Піча. – К.: Каравелла, 2002. – 504 с.

4. Організація і методика проведення аудиту: Навчально-практичний посібник. – [2-ге вид., перероб. і доп.]. – К.: ВД «Професіонал», 2006. – 576 с.

5. Петрик О. Аудит операцій з цінними паперами / О. Петрик, Ю. Кілару // Вісник податкової служби України. – 2002. – №47. – С. 57–63.

6. Савченко В. Я. Аудит: Навч. Посібник. / В. Я. Савченко. – К.: КНЕУ, 2002. – 322 с.

7. Стандарти аудиту та етики. – К.: ТОВ «Паритет - інформ», 2003. – 712 с.

8. Сулейманова Н. В. Удосконалення обліку, аналізу, аудиту вексельних операцій підприємств / Н. В. Сулейманова // Финансовые рынки и ценные бумаги. – 2009. – № 14. – С. 22–27.

9. Усач Б. Ф. Аудит: Навч. посіб. / Б. Ф. Усач. – [3-тє вид. перероб. і доп.]. – К.: Знання-Прес, 2004. – 231 с.