

A STUDY OF THE AZERBAIJANI ACCOUNTING SYSTEM:
AN APPLICATION

A THESIS SUBMITTED TO THE FACULTY OF MANAGEMENT
AND GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

OF BILKENT UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

BY

SERDAR TURHAN

MARCH 1994

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I Certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.



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I Certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.



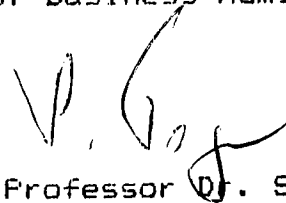
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Approved to the Graduate School of Business Administration



Professor Dr. Subidey TOĞAN

ABSTRACT

A Study of the Azerbaijan Accounting System:
An Application

by

Serdar Turhan

Supervisor: Ass. Prof. Dr. Can Simga Mugan

March 1994

This thesis is a study of the Azerbaijan accounting systems focusing on a factory, Azerelectrosvet, and its accounts as a case study.

First the accounting policies in different countries are described and then the balance sheet, income statement, profit distribution and cost accounting of Azerelectrosvet are analysed in detail.

This study may be used by Turkish Investors interested in Azerbaijan and other Turkic Republic and to help the Azerbaijan authorities to adopt international accounting systems.

O Z E T

Azerbaycan Muhasebe Sistemi Uzerine Bir Çalışma

Serdar Turhan

Danışman: Doç. Dr. Can Simga Mugan

Mart 1994

Bu tez Azerbaycan muhasebe sistemini Azerelektrosvet fabrikasının hesaplarını inceleyerek açıklayan bir çalışmadır.

Öncelikle uluslararası muhasebe prensipleri tartışılmış daha sonra Azerelektrovet'in bilanço, gelir tablosu ve kar dağıtım tablosu incelenmiştir.

Bu çalışma Azerbaycan ve Türk Cumhuriyetleri ile ilgilenen yatırımcılara veya Azerbaycandaki ilgili kişilere kendilerini uluslararası sistemlere uydurmaları için yardımcı olabilir.

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ACKNOWLEDGEMENTS

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1-INTRODUCTION

Accounting is a source of information for the operation and performance of companies all over the world. We live in a world which is experiencing a rapid globalization process, and everyday people in business meet new cultures and economic systems.

After the disintegration of the USSR, a new gate opened for Turkey to the new Turkic Republics. However these Republics were past of a socialist system with a centralized economy for over 70 years. Although the cultures are the same, we have to get to know the differences between the economic systems in order to be able to work together.

This study analyses the accounting system in Azerbaijan focusing on a state-owned lamp plant, Azerelectrosvet which is one of only two bulb and lamp factories in all of the Turkic Republics. The other factory is in Mayli-Say in Kyrgystan. Azerelectrosvet is near Azizbeyov metro station on the way to Baku Airport. It has one bulb and seven lamp production lines and four glass furnaces. About one thousand five hundred employees work in the factory which had a turnover of nearly 65.000.000 roubles in 1992.

First, the policies of the accounting system in the Azerbaijan Republic are described in the light of international accounting policies. As examples other countries like Canada, due the United States, Turkey, France and Germany are reviewed in Table 1.

Due to ease of access to data, Azerelectrosvet documents from 1992 are used to analyse the balance sheet, income table and profit distribution and cost accounting. Each balance sheet and income statement account are analysed.

2-ACCOUNTING POLICIES

There are no unique rules applied all over the world regarding how the results of the operation of a company are written. Although as a science Accounting is based on some certain policies and methods, it differs from country to country in application. The Azerbaijan accounting system is very similar to international accounting systems in structure. They prepare the balance sheet on quarters and the income statement at the end of the year. In addition as we will see in the following parts of the thesis there are many similar accounts and items to the international accounting system as regards the Balance Sheet and Income Statement.

However, if we look at the Azerbaijan accounting system as a whole, we can see that the main aim is the inspection by the state of state-owned companies. This is in contrast to liberal economies where the main aim of accounting is to give information about the operation of a company to the public. In addition, because of the state-owned centralized economy there is no securities market or financial instruments. Since there is nothing related to the

management of cash there is no use for a cash flow statement in the real manner. Cash operations are set under government control in the government banks. Also, as we may see in the balance sheet and income statement there are no notes to financial statements.

Firstly we will analyse the accounting policies of the Azerbaijan accounting system since one who understands accounting policies of a country can more effectively interpret the financial statements of that country. Here, policies of marketable securities, bad debt inventories and valuation, cost flow assumption, fixed assets and valuation, depreciation, research and development, deferred tax policies are analysed in the order: from the most liquid to the least liquid.

2.1-Bad Debts : this is similar to the direct write-off method i.e. the accounts that are uncollected are passed directly to the Finance Ministry by each company at the end of the year. The Ministry collects these accounts itself from the debtors throughout the country. This prevents the companies from spending too much time in collecting bad debts and is one of the advantages of a centralized economy.

2.2-Inventories: since there is no market economy, the lower of cost or market rule is not applied i.e. the inventories are always shown at cost. If there are some amounts left over to the following year the price is multiplied by a revaluation factor which is announced every year by the government for different classes of goods. The cost-flow method is first-in, first-out.

2.3-Fixed Assets : for valuation we can say the revalued amount less depreciation. But here the revalued amount is usually set by the government. Each year the government announces the multiplication factors for the revaluation. These factors are set in detail for each type of asset for different industries. For example, there are different multipliers announced for buildings, lands, oil industry machinery, lightning industry machinery, farm industry machinery, transport vehicles etc. The method of depreciation is straight line.

2.4-Research and Development: during the USSR period, at the end of each year a certain number of funds were passed to the State, and were then used by the Central Research and Development Institute. After disintegration they have not continued with Research and Development so there is no

such account. At the present time companies are trying to get know-how from international companies by establishing joint ventures. They also give special premiums to employees who make improvements in production by his/her original ideas.

2.5-Deferred Taxes :as in the Turkish accounting system, book-tax conformity is required so deferred tax accounting is not an issue.

2.6-Corporate Acquisitions and Amortization of Goodwill : since the government designs the unions of companies (Kolhoz) there is no corporate acquisition in the real manner. The balance sheet of each company is written separately for unions of companies and the balance sheets of these companies are added in each of the equal items.

Table 1 presents the accounting policies of the Turkish and Azerbaijan accounting systems and those of countries like United States, Canada, France, Germany. By the help of this table we can compare policies of the Azerbaijan system with the accounting systems of the other countries.

Unlike the other systems, there are no marketable securities

in the Azerbaijan system since there is no financial market. But very similar to the other systems we can see 1 that the Azerbaijan system uses the FIFO method for cost-flow assumption; acquisition cost less depreciation for fixed assets valuation; and the straight line method for depreciation.

As a policy for bad debt accounts the Azerbaijan system applies a similar method to direct write off, whereas all other systems apply the allowance method.

Another difference of the Azerbaijan system systems is it shows the inventories at cost instead of showing lower of cost or market.

In addition, research and development costs and deferred tax accounting are not issues for the Azerbaijan accounting system.

T A B L E 1.

ACCOUNTING POLICIES in DIFFERENT COUNTRIES.

	<u>United States</u>	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Turkey</u>	<u>Azerbaijan</u>
Marketable Securities (current asset)	Lower of cost or market	Lower of cost or market	Lower of cost or market	Lower of cost or market	Lower of cost or market	Not available
Bad Debts	Allowance method	Allowance method	Allowance method	Allowance method for identifiable uncollectible accounts	Allowance method	Direct write off method
Inventories-Valuation	Lower of cost or market	Lower of cost or market	Lower of cost or market	Lower of cost or market	Lower of cost or market	At cost
-Cost Flow Assumption	FIFO, LIFO average	FIFO, average	FIFO, average	Average (unless physical flow is FIFO or LIFO)	FIFO, average	FIFO
Fixed Assets-Valuation	Acquisition cost less depreciation	Acquisition cost less depreciation	Acquisition cost less depreciation	Acquisition cost less depreciation	Acquisition cost less depreciation	Acquisition cost less depreciation (Revaluation factor is used)
-Depreciation	Straight-line, declining balance, sum-of-the-years-digits	Straight-line accelerated	Straight line, accelerated	Straight-line, accelerated	Straight line accelerated	Straight line

	<u>United States</u>	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Turkey</u>	<u>Azerbaijan</u>
Research and Development	Expensed when incurred	Expensed when incurred	Expensed when incurred	Expensed when incurred	Expensed when incurred	Not available
Leases	Operating and capital lease methods	Operating and capital lease methods	Operating lease methods	Operating lease method	Operating lease methods	Not available
Deferred Taxes	Deferred tax accounting required	Deferred tax accounting required	Book/tax conformity generally required	Book/tax conformity generally required so deferred tax accounting not an issue	Book/tax conformity generally required	Book-tax conformity required. Deferred tax Accounting not an issue.
Investments in Securities: 0%-20%	Lower of cost or market	Cost (unless price declines considered permanent)	Lower of cost or market	Cost (unless price declines considered permanent)	Lower of cost or market	Not available
20%-50%	Equity method	Equity method	Equity method	Cost (unless price declines considered permanent)	Lower of cost or market	Not available
Greater than 50%	Consolidation required	Consolidation generally required	Consolidation required	Consolidation required	Consolidation is required for public companies	Not available

	<u>United States</u>	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Turkey</u>	<u>Azerbaijan</u>
Acquisitions: Accounting Method	Purchase and Pooling of interests method	Purchase method (pooling permitted only when acquirer cannot be indentified)	Purchase method	Purchase method	Purchase method	Merger by government and Kolhoz forced
Amortization of Goodwill	Amortization over maximum of 40 years	Amortized over maximum of 40 years	Amortization required	Amortized over period of 4 to 15 years	Amortized over period of 5 years	Not available

x. Kolhoz is explained in section 2.6 page 6.

3-BALANCE SHEET

The balance sheet is prepared in quarters in the Azerbaijan accounting system. The left hand side, which is called the active side, shows the forms and resources which the company has used. The right hand side, which is called the passive side, shows the sources of the funds that are invested in the assets. In the Azerelectrosvet balance sheet, we see that accounts are grouped in this order: (See Table 2):

Active : -----

i -) Fixed assets and investments: as we may see in Table 2 this main account groups tangible fixed assets, intangible fixed assets, new investments, new machinery financial fixed assets, founders special account and usage of the some part of profit accounts.

ii-) Stocks and Costs: raw materials, semifinished and intermediate products, cost for the goods in stock, remounting and revision costs, finished products and commodities account are shown under this main account.

iii-) Current Assets: this main account is composed of cash, banks, foreign currencies, bad debt, advances, receivable to the State Budget account.

Passive:

i -) Equity and Special Funds: capital, debts for new investments, debts to special funds, debts to spare fund account and depreciation accounts form this main account.

ii-) Credits and Other Debts: this main account groups short, medium and long term credits.

iii-) Other Passives: debts to other state companies, advances from other state companies, debts to state budget, debts to other funds, debts to trade unions, debts to personnel salaries, debts to personnel credit accounts form this main account.

Here, we can say that in th Azerbaijan accounting system accounts are shown as starting from the least liquid to the most liquid.

Now we will describe the accounts in the Azerelectrosvet balance sheet according to the structure of the Turkish accounting system.

ACTIVE

3.1-"Tangible Fixed Assets".

This account has (01) number in the Azerbaijan accounting system This includes land and plots, buildings, machinery, equipment, vehicles, furnishing etc.

3.2-"The Intangible Fixed Assets" account is numbered (04). In this account patents, copyrights, search permissions are shown. Since they don't have research and development now, they don't have such an expenditure. But they are trying to buy know-how from the other international companies to catch the international quality standards.

Intangible fixed assets are amortised according to their deadlines in straight line method.

3.3-(33,35,61) numbered accounts can be defined as "New Investments" accounts. These accounts are used for new machinery, construction or personnel housing investments.

New Investments (33,35,61)	o	Debt for New Investments(93,94)
	o	

3.4-Number (07) account is used for the new machineries purchased but not utilized yet.

3.5-"Financial Fixed Assets":(55,88) In the Azerbaijan system this account is constituted by state companies debentures, bills and bonds.

State companies can buy each other's bonds by designing contracts under the permission of the government. Here the assets are calculated by multiplication factors announced by the government for revaluation.

Financial Fixed Assets(55,58)	o	Debts to Other State Companies(95)
	o	

3.6-"The Usage of Some Part of the Profit" account is numbered as (81). The Turkish system does not have such an account.

This is a fund account. The Director and union decide together how much to spend and on which areas from this fund.

The operation of this account is done in two ways;

I-) There is a profit and payments should be made to number (68) or (87,88,96) accounts. (See item 3.25) e.g payment of 50.000 roubles of tax to State Budget.

Throughout the Year

-----	o	-----
(81-1) Usage of some part of the profit	50.000.-	(68-P) Debts to State Budget
		50.000.-
-----	o	-----

for the Payment

-----	o	-----
(68-P) Debts to State Budget	50.000.-	(50) Cash
		50.000.-
-----	o	-----

The same porcedures are done for numbers (87), (88), (96), i.e. each time account (81) is debited and (87), (88) or (96) is credited.

At the end of the year account (81) (Usage of some part of profit) is closed to account (80).

II-) Payment are made before the profit occurs. (This is not used often) e.g. payment of 50.000. roubles as a premium to the workers during the period.

-----	o	-----
(88-A) Special Fund		
50.000.-		
	(50) Cash	50.000.-
-----	o	-----

after profit is determined in (80)

-----	o	-----
(80) Profit		
50.000.-		
	(88-P) Special Fund	50.000.-
-----	o	-----

-----	o	-----
(88-P) Special Fund		
50.000.-		
	(88-P) Special Fund	50.000.-
-----	o	-----

- (88-A) : 88 Active side account
- (88-P) : 88 Passive side account
- (68-P) : 68 Passive side account

3.7-"The Founders Special Account" is number (75). The Turkish system does not have this account. This is a fund account only used for shareholders. If they want to leave the company their capital shares are paid from this account. The invested capital is evaluated each year by multiplication with the factor that is announced by the government.

3.8-Raw Materials : (05,06,08,12) numbered accounts are raw material accounts.

3.9-(03,20,21,23,29,30) numbered accounts are shown together and include both "Semi-Finished Products" and "Intermediate Products".

3.10-(44) numbered account is used more in trade companies. It shows promotion, transport and stock expenditures in marketing.

3.11-(31) numbered account collects all "Remounting and Revision Costs for production. All of these expenditures are incurred during the year by adding to the cost of goods manufactured.

3.12-Number (40) account shows the "Finished Products". In This subaccount: on the left side the real costs from cost accounting and right side the selling prices of the product used.

3.13-Account (41) is the "Commodities " account. The goods that are bought not for production but only for trade are shown in this account.

3.14-The "Cash" account is number (50).

3.15-The "Banks" account is number (51).

3.16-(52) numbered account is used for foreign currencies in the Bank. The bank evaluates the foreign currency according to the rate announced everyday by the government.

3.17-(54,55) numbered accounts can be defined as "Other Accounts in Banks". This account is for the accounts in foreign countries, accreditiffs etc.

3.18-Number (56) is "Other Ready Assets". In the Azerbaijan system this is usually for debenture, bills and bonds of state companies.

3.19-The "Short-term Receivables" account is number (58).

3.20-(45,62,78) numbers are "Bad Debt" accounts. Since there is no usage of cash instruments in the Azerbaijan economy, after the contract, a date is defined for payment to the bank. Whether this payment is done on due or not is shown in

the "Bad Debt" account. If at the end of the year it is still not paid, company informs this account to the Ministry of Finance and the ministry collects the account itself. Number (45) is selling ready products; (62) is lending money; (76) is services.

3.21-Number (59) is again a kind of "Bad Debt" account like item 3.19 , but this account includes only sold debentures, bills and bonds.

3.22-Number (61) is a kind of Bad Debt account for "Order and Service Advances". If the company can not get the order or service against the advance it paid, then this amount is added to the "Bad Debts" account and sent to the Ministry of Finance.

-----	o	-----
Order and Service Advances		
(61)		Advances from the Other State
		Companies (61)
-----	o	-----

3.23-Number (68) shows the "Receivable from the State Budget".

-----	o	-----
Receivable from the State		
Budget (68)		
		Debts to State Budget (68)
-----	o	-----

3.24-Number (73) is the "Advances to Personnel" account.

3.25-(87,88,96) numbered accounts are for extra cash which is not spent and left for funds : personnel premiums, profit which is not used in other funds, social housing. (96) account is an incentive account which is supported by the government for important sectors.

-----	o	-----
Special Funds		
Account (87,88,96)		
		Debts to Special Funds Account
		(87,88,96)
-----	o	-----

PASSIVE

3.26-Number (85) is for "Capital".

3.27-Number (02) is for "Depreciation".

Starting from 1993 the depreciation fund will be decreased from fixed assets and will not be written on the active side.

3.28-(93,94) numbered accounts can be named as "Debt for New Investments". Debts taken for new investments from the other State Companies or from the Central State Companies are shown in this account.

3.29-Number (76) is for the debts to Energy Enterprises; electricity, natural gas, hot water, water and debts for transportation.

3.30-(87,88,96) numbered accounts placed this time on the passive side for the debts to same numbered fund accounts on the active side. They are named as funds for unused profit, social housing and government incentives for important sectors.

3.31-Number (89) can be called the "Debts to Spare Found Account". This fund account is for the extra payments in the next period which may arise out of the program for new raw materials, machinery or investments.

3.32-Number (83) is the "Inventory Shrinkage" account. The losses in inventory due to theft, evaporation, miscounting are shown in this account.

3.33-Number (42) is the "Debts to State Commercial Enterprises". For commercial buying and selling processes the company has to pay a certain amount or duty to the State Commercial Enterprises.

3.34-Number (80) is for the "Income Before Taxes" account. This account is the summation of number (40) the "Product" account and (41) the "Commodities" account side by side.

3.35-(90,91,92) numbered accounts are for the credits taken from banks as short, medium and long terms.

3.36-Number (95) shows "Debts to other State Companies" for the aquisition of their debentures, bills and bonds.

3.37-Number (60) shows the "Debts to other State Companies" for their materials and services.

3.38-Number (61) is for the "Advances taken from the other State Companies".

3.39-Number (68) account is for the "Debts to State Budget". These are the tax debts to the State; i.e income, export, import, public taxes the which are mentioned in part 5-7 Income Statement-Payment to the State Budget

3.40-Number (69) account is for the "Debts to Social Security and Trade Union".Azerelectrosvet pays 35 percent of the wages to social security, 1% of the wages to the trade union. When employees are pensioned off, social security pays the pension and the lumpsum. If the director accepts they may go on to work even in the same company. The trade union is responsible for the rights of employees. When employees are ill wages are paid by the trade union in the following percentages; up to 3 years of work period 50 percent, between 3-5 years of work period 60 percent, between 5-8 years of work period 80 percent, after 8 years 100 percent.

3.41-Number (70) is for the "Debts to Personnel Salaries".

3.42-Number (97) shows the loans taken from government for extending credits to personnel but has not been transferred to the personnel yet.

Table 2.

AZERELECTROSVET BALANCE SHEET × 1000			
Roubles			
Active	Row Code	1991	1992
1	2	3	4
1. Fixed Assets and Investments			
Tangible Fixed Assets (01)	010	27334	27984
Intangible Fixed Assets (04)	020	-	-
New Investments (33,35,61)	030	987	1103
New Machinery (07)	035	-	-
Financial Fixed Assets (55,58)	040	-	2287
Usage of Some Part of the Profit (81)	050	3031	15763
Founders Special Account (75)	065	-	-
Losses (80)	080	-	-
Sum of the First Part	090	31352	47137
2. Stocks and Costs			
Raw Materials (05,06,08,12)	100	619	12926
Semifinished and Intermediate Products (03,20,21,23,29,30)	110	420	1941

Cost for the goods in Stocks (44)	120	-	-
Remounting and Revision Costs (31)	130	299	350
Finished Products (40)	140	117	35061
Commodities (41)	150	165	-
Other Funds	160	-	-
Sum of Part 2	170	1620	50278
3. Current Assets			
Cash (50)	200	242	3
Banks (51)	210	668	3100
Foreign Currencies (52)	220	-	-
Other Accounts in Banks (54,55)	230	75	-
Bad Debt (45,62,76)	300	3987	88055
Bad Debt for Bills, Debentures and Bonds (59)	310	-	-
Order and Service Advances (61)	320	1110	1402
Receivable from the State Budget (68)	325	-	513
Others	330	873	31327
Advances to Personnel (73)	340	6	1

Special Funds (87,88,96)	350	-	-
Other Actives	360	5831	6714
Sum of Part 3	370	12792	131115
Total Actives	390	45764	228530

Passive	Row Code	1991	1992
1	2	3	4
1. Equity and Special Funds			
Capital (85)	400	12378	14237
Depreciation (02)	410	18282	18192
Depreciation for short-lived assets (13)	420	234	254
Debt for new Investments (93,94)	430	-	-
Debts to Special Funds (87,88,96)	450	1836	4562
Debts to Spare Fund Account (89)	460	25	86
Income Before Taxes (80)	510	3523	13871
Sum of the Part 1	520	37170	52973
2. Credits and Other Debts			
Short-term Credits (90)	600	-	450
Long Term Credits (92)	610	5000	7561
Sum of the Part 2	650	5000	8011
3. Other Passives			
Debts to Other State Companies (60)	700	2639	119413
Advances from Other State Companies (61)	720	-	-
Debts to State Budget (68)	730	-	6944

Passive	Row Code	1991	1992
1	2	3	4
Debts to Other Funds (65)	735	133	-
Debts to Trade Union (69)	790	30	3104
Debts to Personnel salaries (70)	750	594	6345
Other Debts (97)	760	186	26868
Debts to Personnel Credits	765	6	-
Other Passives	770	5	4116
Sum of Part 3	780	3594	167546
Total Passives	800	45764	228530

4-COST ACCOUNTING SYSTEM

Here we will analyse the cost accounting before the income statement of Azerelectrosvet because the expenditures in cost accounting calculations will be used in part 5-3 as cost of sales in calculating the profit of Azerelectrosvet. The Azerelectrosvet cost-flow chart is drawn in Table 3. In the chart the main costs are taken as raw material, social insurance, direct workers wages and energy expenditures. Acquisitions of semi-finished materials, administrative expenses, remounting and maintenance, general productions, commodities costs come after the main costs. Also we have to notice that in the chart inventories go to the beginning balance of the basic production account.

In Azerelectrosvet, planned cost accounting is prepared at the beginning of each year and actual costs are evaluated monthly. The variance between them goes to beginning balance of finished products account if it is positive and to ending balance of finished products account if it is negative. (See Table 3).

The items used in cost accounting in Azerelectrosvet are as below. The expenditures after direct workers wages are calculated as the percentage of direct workers wages in planned cost accounting.

4.1-RAW MATERIALS ;raw materials are direct raw materials. Azerelectrosvet uses silisium, platinit, dolamit, volfram and luminacence as raw materials.

4.2-ACQUISITIONS OF SEMI-FINISHED MATERIALS to be used in the production. Azerelectrosvet uses starters and flamans as semi-finished materials.

4.3-ENERGY EXPENDITURES: natural gas, electricity, water, hot water.

4.4-DIRECT WORKERS WAGES: these are calculated on an accrued basis.

4.5-INDIRECT LABOR COST: for holidays, birth periods, exam periods of students etc. In planning it is calculated as 8% of item 4.4.

4.6-SOCIAL SECURITY FUND: in planning it is calculated as 35% of item 4.4.

4.7-FUND FOR IMMIGRANT PEOPLE: from the war in Dağlık Karabag. In planning it is calculated as 1% of item 4.4.

4.8-UNEMPLOYMENT FUND: in planning it is calculated as 2% of item 4.4.

4.9-GENERAL PRODUCTION COSTS: this item is constituted by: payments to official employees related with production, payment to services, rent payments. In planning it is calculated as 114% of item 4.4.

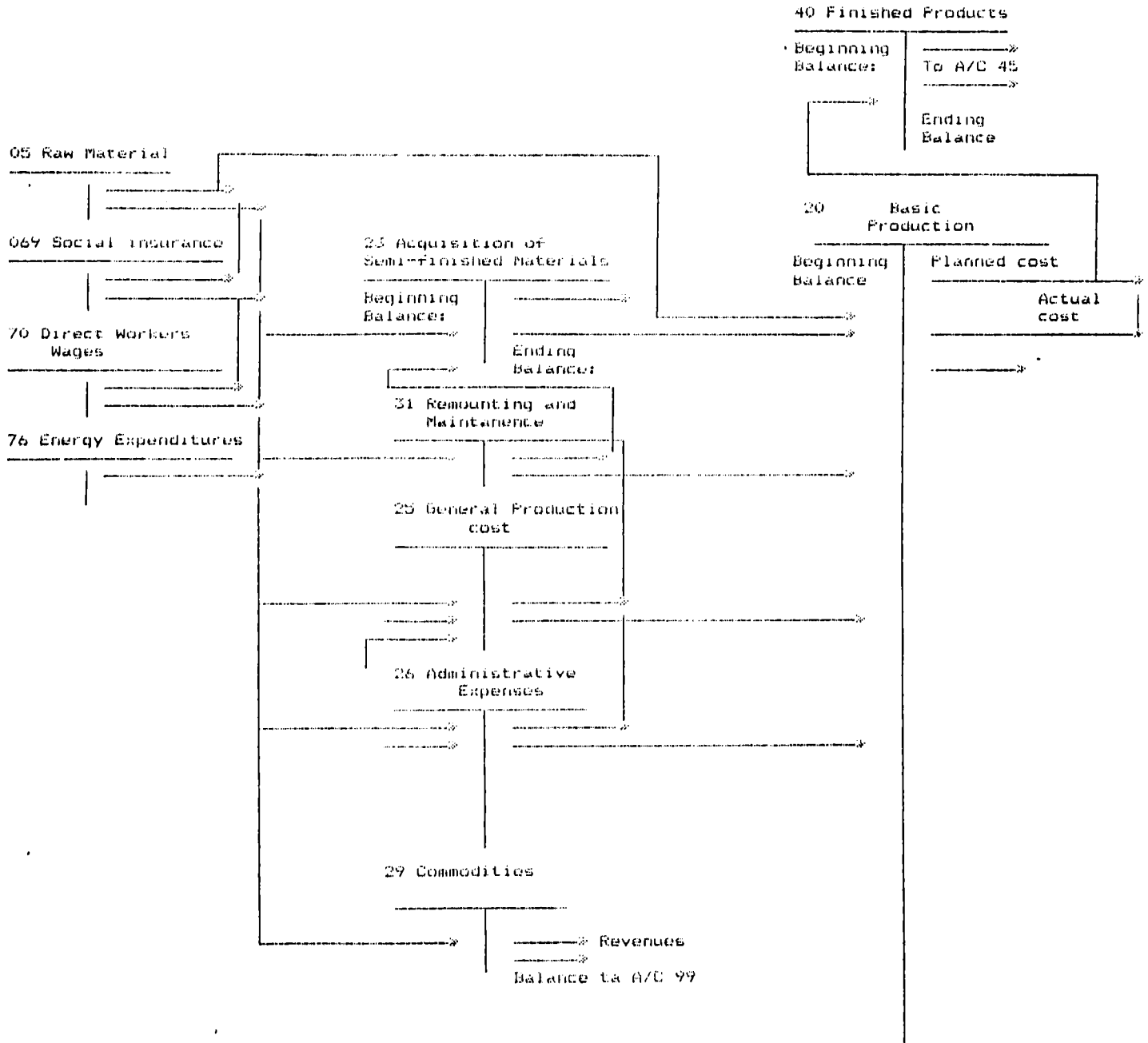
4.10-REMOUNTING and MAINTENANCE of FIXED ASSETS: in planning 68% of item 4.4 is calculated. Depreciation is also included in this item.

4.11-ADMINISTRATIVE EXPENSES :payments to administrative employees, communication expenses, maintenance of management building etc. The addition of all above expenses constitute the total cost for a production period.

By dividing the sum of the above items by the number of the units that they have manufactured in that period, they find the cost of one unit of good produced.

Table 3.

AZERELECTROSNET COST ACCOUNTING FLOW CHART



5-INCOME STATEMENT and PROFIT DISTRIBUTION

In the Azerbaijan accounting system the structure of income statement is very similar to the Turkish system. But since the companies are owned by the State, there are some differences in the Taxing and Profit Distribution. By following the procedure step by step these differences will be examined. It should be noticed that there is no marketing expenditure, and financial expenditure is placed just before profit distribution.

(010)5.1-GROSS SALES

5.2-DISCOUNTS FROM SALES. Since there is no free-market economy yet this item is not usually used.

(040)5.3-COST OF SALES. This is the sum of all expenditures in part 4 in Cost Accounting.

(050)5.4-GROSS SALES PROFIT or LOSS.

(070)5.5-REVENUES and PROFITS FROM OTHER OPERATIONS. Revenues from bills, debentures, bonds and rents are shown in this item.

(080)5.6-PROFIT or LOSS of the PERIOD.

5.7-PAYMENT to the STATE BUDGET.

A.(300) Building and Land Tax. This is between 10-30 percent, it changes according to the type of building and the value of land.

B.(310) Income Tax. The percentage differs according to the revenue and type of business; between 20-30 percent of revenue.

C.(330) Spare of Labor Work Tax. This is not used any more. Before it was 300 Roubles for each employee.

D.(350) Public Tax. Tax collected for infrastructures of the Republic. It is 15 percent of revenue.

E.(360) Export Tax. It is 15 percent of export done by the company.

F.(365) Import Tax. It is 15 percent of import done by the company.

H.(380) Tax of Being Single. This will not be used starting from 1993.

5.8-NET PROFIT or LOSS OF THE PERIOD.

5.9-PAYMENT +for BANK INTEREST CHARGES and PENALTIES. [FINANCIAL EXPENDITURES]

5.10-PROFIT DISTRIBUTION: since the company is owned by the State, the management of the company decides the amount of profit to be distributed to the following funds:

A. (210) Spare Fund. This fund is to be used for any accident or illness of the personnel or any disaster stopping the operation of the company.

B. (220) Improvement of the Production Fund. This fund is to be used for anything to improve production e.g. buying know-how, new technology etc.

C. (230) Social Necessity Fund. This fund is used as extra cash on top of the trade union support for the families of employees who are disabled or killed by accidents, or who went to the war in Karabag.

D.(240) Rewarding Fund of Personnel. This fund is used to pay premiums to the personnel for their efforts or ideas improving production.

E.(250) Social Fund. This fund is used for any aim bringing together the employees e.g. sport, holiday organizations.

F.(260) Fund for Other Aims.

G.(270) Rent Payment Fund. This is used for the rent payments of the company.

Table 4.

AZERELECTROSVET INCOME STATEMENT x 1000 Roubles

	Row Code	Profit	Loss
1	2	3	4
Gross Sales	010	51733	-
Cost of Sales	040	-	63200
Gross Sales Profit or Loss	050	-	13022
Revenues and Profits From Other Operations.	070	4458	22
Totals	080	56191	63222
Profit or Loss of the Period	090	-	7031

2. Profit Distribution

Explanations	Row Code	End of Year
1	2	3
Payment to State Budget	200	1774
Spare Fund	210	12
Improvement of the Production Fund	220	112
Social Improvement Fund	230	1101

Rewording Fund of Personnel	240	1411
Charities Fund	250	757
Fund for Other Aims	260	11
Rent Payment	270	777

3.PAYMENT TO STATE BUDGET

Explanations	Row Code	Required Amount	Paid Amount
1	2	3	4
Rent	300	-	-
Income Tax	310	994	-
Public Tax	350	1324	906
	370	697	688
	390	782	449
Expensed Funds for Health, Education, Sport, Personnel Housing, Social Needs etc.	530	345	-

6-CONCLUSION and RECOMMENDATIONS

In this study first we considered the policies of the Azerbaijan accounting system. Then we analysed the balance sheet, cost accounting system and income statement of the Azerelectrosvet company.

When we look at the complete analysis it can be said that the Azerbaijan accounting system is very similar to the Turkish and international accounting systems in structure. But since the whole economy is handled by the government the main aim is the inspection of companies by the government. However, the international accounting system aims to give information about the operation of entities to the public. The accounting staff in Azerelectrosvet were so used to inspection by the government that they hardly understood our interest as foreigners in the balance sheet of Azerelectrosvet.

In Azerbaijan, because of inflation, the government announces multiplication factors once a year for the revaluation of assets. Since the inflation rate in the last two years has increased very rapidly, nearly 400-500 percent, after a couple of months it becomes impossible to use these multiplication factors. So

companies have serious problems in their operation. A similar problem arises in the announcement of the foreign currency rates by the government, e.g. in some periods the difference between the government rate and the blackmarket rate leads companies to heavy losses.

Azerbaijan does not have a liberal banking system, financial market or instruments. Banking transactions are made between the companies by the State Banks under the control of the State. So, as we saw in the Balance Sheet there are no cash instruments used. For these reasons there is no purpose for a cash-flow statement in the system. Banking transactions are done in State banks under State control. But we have to also say that as an advantage of this situation they have no problem in collecting taxes and bad debts.

In conclusion, we can say almost all differences between the Azerbaijan accounting system and International accounting system arise because of the centralised economy of the Azerbaijan Republic. In this study we tried to state these differences and give information about the Azerbaijan accounting system. This may help foreign investors interested in the Azerbaijan Republic, or assist the Azerbaijan Authorities in joining in the world of liberal economies.

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APPENDIX A

1/1-91
1/1-92

МУӘССИСӘНИН БАЛАНСЫ

1 №-ли форма	КОДЛАР
Тарих (ил, ај)	
Мүәссисә (бирлик) 1 <u>Январь</u> 1993 ил	
Мүәссисә (бирлик) <u>Азәр Электрәх ишләр Бирлиги</u> МТТ үзрә	
Сәһә (фәалијәт нөвү) <u>Сәнајә</u>	ХТСТ үзрә
Тәсәррүфаты идарәетмә органы _____	ДИОИС үзрә
Өлчү ваһиди: мин рубл.	НМ

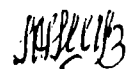
Үшвәт Фәли ишләри Москва ирәстәхәйи 119 674037
ишләри телефон нөмрәси вә фамилијасы

Көндөрмә тарихи
Алыма тарихи
Тәгдәм олунма мүддәти

АКТИВ	Сәйр код	Налиқ өлшемі	Налиқ саны
I	2	3	4
I. ҚСАС ВƏСАИТЛƏР ВƏ ТƏЈУЛУШЛАР			
Осае васаитлар (01)	010	27334	27984
Тейри материал аваслар (04)	020		
Қапитал тейлуви таваслар (33, 35, 61)	030	987	1103
Аваласлар (67)	035		
Узунмүддетли малијя тейлуви (55, 58)	040		2287
Монфадон истифадэ (31)	050	3031	15763
	060		
Иштиракчыларла һесаблинамалар (75)	065		
Өмлекә көрә һесаблинамалар (76)	070		
Зарарлар (80)	080		116
I Бөлмәниң јекуну	090	31352	47253 47009
II. ӨТИЈАТЛАР ВƏ МƏСРƏФЛƏР			
Нетехеал өтијатлары (05, 06, 08, 12)	100	619	12926
Бигәмниң нетехеал (03, 20, 21, 23, 29, 30)	110	420	1941
Мал галығына тодавүл хәрчләри (14)	120		
Қаләмәк дөврүи хәрчләри (31)	130	299	350
Назыр мәһсул (10)	140	117	35061
Өмтәәләр (41)	150	165	
Саир өтијатлар вә мәсрәфләр	160		
II Бөлмәниң јекуну	170	1620	50278
III. ПУЛ ВƏСАИТЛƏРИ, ҺЕСАБЛАШМАЛАР ВƏ САИР АКТИВДƏР			
Касса (50)	200	242	3
Һесаблашма һесабы (51)	210	668	3100
Валјута һесабы (52)	220		
Банкда саир һесаблир (54, 55)	230	75	
Саир пул васаитләри (56)	240		
Гиса мүддәтли малијя тейлушлары (58)	250		
Борч васаитләриндәи истифадә олунамасы (82)	270		
Дебиторларла һесаблашмалар:			
мал вә хидмәтләрә көрә (45, 62, 76)	300	3987	88055
алыммыш векселләрә көрә (59)	310		
варилмниң аваласлар үзрә (61)	320	1110	1402
бүдчә илә (68)	325		513
саир	330	873	31327
Банкдан алыммыш судаја көрә иштикләрлә һесаблашма (73)	340	6	1
Мәгсәдли малијяләниәмә вә хүсуси фондларла өдәниәмниң хәрчләр (87, 88, 96)	350		
Саир активләр	360	5831	6714
III Бөлмәниң јекуну	370	12792	13115
	380		
БАЛАНС	390	45764	228646 228530

ПАССИВ	Сәтр коду	Или 1/91	Или 1/92
1	2	3	4
I. ХҮСУСИ ВƏСАИТЛƏРИИ МƏНБƏЛƏРИ			
Иязнамə фонду (85)	400	12378	14237
Осае вəсаитлəрини кəблəм əн (02)	410	18282	18192
Азгијмəтлї вə тəзкəвмəтлї сифталарыи кəблəм əн (13)	420	234	254
Канитлє рəјсуну үчүн мəнфəт сифталарыи кəблəм əн (93, 94)	430		
Өмлəкə кəрə һесаблашмалар (75)	440		
Хүсуси фондлар вə мəгсəдлї малијјəлəнимəлєр (87, 88, 96)	450	1836	4562
Кəлəчəк дəврүп кəрч вə өдмəлєршнн багламаг үчүн ентнјаглар (89)	460	25	86
Амортизаснја фонду (85)	470	892	1771
Кəлəчəк дəврүп кəлнрлєрн (83)	480		
Сатылмамшн маллара тнчəрəт күзəнтлєрн (42)	490		
	500		
Мəнфəт (80)	510	3523	13987 13871
I Бөлмəннн јекуну	520	37170	53089 52973
II. КРЕДИТЛƏР ВƏ САИРƏ БОРЧ ВƏСАИТЛƏРИ			
Гыса мүддəтлн кредитлєр (90)	600		450
Орта мүддəтлн кредитлєр (91)	610	5000	7561
Узуи мүддəтлн кредитлєр (92)	620		
Вахтында өдəннлмəмшн судалар	630		
Гыса мүддəтлн борч вəсаитлєрн (95)	640		
Узуи мүддəтлн борч вəсаитлєрн (95)	650		
II Бөлмəннн јекуну	660	5000	8011
III. ҺЕСАБЛАШМАЛАР ВƏ САИРƏ ПАССИВЛƏР			
Кредиторларла һесаблашмалар:			
мал вə хидмəтлєрə кəрə (60)	700	2639	119413
верннмшн векселлєр үзрə (66)	710		
алынмшн аванселлєр үзрə (61)	720		
бүдчə илə (68)	730		6944
иттисаднјјаты сабитлєндирən бүдчəдəнкəр фондларла (65)	735	133	
сыгорта үзрə (69)	740	30	3104
эмək өдəнншн үзрə (70)	750	594	6345
саирə кредиторларла	760	186	26868
Фəһлə вə гуллугчулар үчүн судалар (97)	765	6	
Саир пəссивлєр	770	5	4116
III Бөлмəннн јекуну	780	3594	167546
	790		
БАЛАНС	800	45764	228646
			228530

Рəһбər

Ҷаиш мүнəсиб 

APPENDIX B

ОТЧЕТ О ФИНАНСОВЫХ РЕЗУЛЬТАТАХ
И ИХ ИСПОЛЬЗОВАНИИ

Утверждена Минфином СССР для корпоративной отчетности 1991 года

Форма № 2 по ОКУД

Дата (год, м-ц, число)

Коды	
0710026	

с 1 января по 31 1992 1991 г.

Предприятие (обозначение) _____ по ОКПО

Отрасль (вид деятельности) _____ по ОКОНХ

Орган государственного управления _____ по ОКПО

Единица измерения: тыс. руб.

Контрольная сумма

I. Финансовые результаты

Наименование показателя	Код стр.	Прибыль	Убытки (расходы)
Выручка (валовой доход) от реализации продукции (работ, услуг)	2 010	3 51733	1 X
Налог с оборота	020	X	
	030		
Затраты на производство реализованной продукции (работ, услуг)	040	X	63200
Результат от реализации	050		13022
Результат от прочих реализаций	060		
доходы и расходы от интеракционных операций	070	4458	821
в том числе по ценным бумагам и от долевого участия в совместных предприятиях	071		X
Итого прибылей и убытков	080	56191	63222
Балансовая прибыль или убыток	090		7031
Справочно. Сумма превышения (снижения) расходов на оплату труда персонала предприятия	100	10000	

II. Использование прибыли

Наименование показателя	Код стр.	На конец отчетного периода
Платежи в бюджет	2 200	3 1774
Отчисления в резервный (страховой) фонд	210	12
Отвлечено на:		
производственное развитие	220	112
социальное развитие	230	1101
повышение	240	1411
облагораживание персонала	250	757
другое	260	11
Справочно. Арестованная сумма (сумма арестованных средств)	270	777

III. Платежи в бюджет

Наименование показателя	Код стр.	Принимается по расчету	Фактически внесено	
			всего	в том числе в бюджет
	2	3	4	5
Рентные платежи	300			
Налог на прибыль	310	994	-	
в том числе в пределах установленного уровня рентабельности	320			
Плата за трудовые ресурсы	330			
Плата за природные ресурсы и загрязнения (за исключением вредных веществ в окружающую среду)	340			
Налог на потребление	350	1324	906	
Налог на импорт	360			
Налог на экспорт	365			
Налог на доходы	370	697	688	
Подходовый налог и налог на имущество	380			
Экономические санкции	390	782	449	
Справочно	400			
Получено из бюджета				

IV. Затраты и расходы, учитываемые при исчислении льгот по налогу на прибыль

Наименование показателя	Код стр.	Фактически за отчетный период
	2	3
На проведение научно-исследовательских и опытно-конструкторских работ, подготовку и освоение новых прогрессивных технологий и видов продукции	500	
На погашение кредита, предоставленного на финансирование централизованных государственных капитальных вложений (покрывается за счет прибыли, направленной на накопление (511))	510	
На проведение природоохранных мероприятий	520	
На содержание объектов здравоохранения, домов престарелых и инвалидов, детских дошкольных учреждений, пионерских лагерей, объектов культуры и спорта, учреждений народного образования, а также объектов жилищного фонда (из них в пределах нормативной затрат, утвержденных местными Советами)	530	345
На оказание помощи сельскохозяйственным предприятиям и строительстве объектов на селе и приобретение оборудования для них	540	
народных депутатов (531)	540	
	550	
	560	

Руководитель

Главный бухгалтер