

ANALYTICAL PROCEDURES USED BY PUBLIC CATERING ESTABLISHMENTS

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Abstract. *The main features of analytical procedures used at public catering establishments were described. Bearing on the outcomes of the conducted research, proven was that the analytical procedures serve as the scientific-methodical toolkit allowing to reduce time and costs through formalization and unification of control and payment operations as well as to enhance the quality of analysis and audit by decreasing the technical risks stemming from human errors.*

Key words: *analytical procedures, audit, public catering sphere, methods.*

JEL Classification: *M-41*

Introduction

The complexity of bookkeeping in public catering establishment lies with the need of carrying out numerous operations such as purchasing foodstuffs, costing of platters, updating menu, production and selling of readymade products. Moreover, many of public catering establishments encounter additional income and expense items in connection with leisure and entertainment arrangements. All these pose a rather enhanced risk of material errors emergence in the accounting and financial statements. Usually, the financial control and audit serve to discover and clear the errors. In particular, application of financial control and audit furnishes assistance to an enterprise in as follows:

- detect errors emerging in the accounting (financial) reporting;
- facilitate minimization of entrepreneurial risks;
- gain reasonable assurance in that the accounting (financial) reporting does not contain any material distortions;
- get a clear understanding on company's assets and liabilities;
- develop tactics of solving the problems with the view of scaling up the activity conducted by the economic operators.

Challenges and Results

In order to improve the quality of audit it is feasible to make use of the *analytical procedures* as one of the most cost-effective method of collecting audit evidence.

The analytical procedures are the paramount component of the audit used both when planning audits as well as in the audit process regardless of its stage. In some cases, the use of analytical procedures could be more efficient than the application of detailed tests bearing in mind reduction of time and costs on carrying such out. The audit using analytical procedures allows for choosing the optimal way of conducting the audit while ensuring thereat high quality of auditing.

It is advisable to use in auditing such analytical procedures that account for the specifics of the line of business conducted by the enterprise, including public catering establishments. Hence, the aspects of applying analytical procedures when auditing public catering establishments require a comprehensive research. This being the core purpose of writing this article.

Pursuant to *IAS 520 Analytical Procedures*, the analytical procedures imply evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount [4].

The application of the analytical procedures is possible by using different methods of economic and financial analysis, the choice of which depends on the preset objective. There is no unified methodology for carrying out analysis when auditing the effectiveness of company activity, and therefore, the auditor determines independently the indicators and ratios as well as the methods of analysis arising from the availability of data and specifics of business. The analysis could be done using the following methods: *comparison method, analytical indicators systems and tables designing method, chain substitution and integral method, expert estimation technique, balance*

sheet method, mean value method, grouping method, situational analysis and forecasting methods, correlation and regression analysis, and other relevant methods [10].

Analytical procedures enjoy a wide spectrum of application in auditing offering solutions for key objectives pursued by the auditing and therefore it is necessary to highlight the specific features of using such in public catering establishments (*Table 1*).

Table 1. Specifics of application of analytical procedures in public catering establishments

Indicator	Description
Domain of application of analytical procedures	<ul style="list-style-type: none"> ✓ Audit of the reliability of the financial reporting indicators. ✓ Audit related services: <ul style="list-style-type: none"> - set up, recovery and accounting record; - tax and bookkeeping consulting; - enterprise operating and business review.
Auditing stage	<ul style="list-style-type: none"> ✓ Audit planning stage implies application of analytical procedures in order to identify the specific features of business conducted by public catering establishments, outlining the challenges in collecting financial information and assessing the risk of auditing. ✓ Audit <i>per se</i> stage implies identifying inaccuracies and distortions in records of availability and flow of goods, raw material, semi-finished products and finished product (platters). ✓ Audit completion stage implies comparison of generalizing reporting indicators with the past years' data.
Purpose of applying the analytical procedures	<ul style="list-style-type: none"> ✓ Operating and business analysis in public catering establishments. ✓ Research of the systems of internal control and accounting record concerning the availability and flow of goods, raw material, semi-finished products and finished product. ✓ Obtain audit evidence. ✓ Identify audit domains that require application of additional auditing procedures. ✓ Shaping up an opinion on the accuracy of reflecting balances in the accounting (financial) statements.
Nature of the analytical procedures	<ul style="list-style-type: none"> ✓ Qualitative procedures allow for drawing a conclusion on the completeness, lawfulness and accuracy of the turnovers and account balances. ✓ Quantitative procedures include use of comparison methods, analysis of ratios, relative indicators and trends.
Data sources for carrying out analytical procedures	<ul style="list-style-type: none"> ✓ External sources imply legislative acts, data made available by the tax and statistics authorities. ✓ Internal sources imply in-house regulations and statutory acts of the enterprise, primary documents, accounting ledgers, accounting (financial) statements.

Source: Developed by the author on the grounds of article titled Methodological aspects of applying analytical procedures in auditing inventory of balneo-mud spa enterprises of Crimea, N.V. Burdyug [12]

With the view of ensuring efficient audit in public catering establishments, generally recommended is to carry out a number of audit procedures among which the following are the core ones:

- checking out the system of internal control when purchasing goods and materials for making products, selling such and other cash write off or receipt;
- carrying out tests for balances of debtors and creditors across the individual customers: review of accompanying documentation on shipment and obtaining proceeds;

- performing analysis of inventory accounts titled “Goods”, “Finished product”, “Proceeds from selling values for cash” and other accounts/subaccounts with the purpose of identifying: substantial turnover, atypical economic transactions, violation in reflecting in accounting operations on purchasing, production and selling finished product and goods as well as compliance of their accounting following the procedure stipulated in the accounting policy of the audited institution as well as compliance with the regulatory acts. It is also necessary to review the information systems associated with preparation and , generation of accounting (financial) statements and other analytical procedures;
- performing targeted testing of debit entries on accounts 216, 217, and 832 (to identify understatement) and credit entries on account 521 (to identify overstatement);
- verifying the accuracy of reflecting in the accounting (financial) statements operations concerning entry and exit of goods, finished product, compliance of data produced in the statements with the bookkeeping data. Verifying the accuracy of compilation of commercial expenses in compliance with the procedure outlined on the accounting policy, compliance with the requirements set forth by the national legislation and other relevant issues;
- estimation of the outcomes should be targeted towards obtaining sufficient number of due audit evidence as required for generation of opinion on the integrity of the accounting (financial) statements of a company, primarily with regard to reflection in records and accounting trade operations associated with finished product;
- comparing factual indicators with the regulatory (estimated) or planned ones (for example, compliance of factual use of raw matter per portion with the data contained in master recipes list);
- comparing the reported period indicators with such of past periods as well as with the indicators of other establishments within the sector.

The practice of auditing public catering establishments allows for identification and systematization of the most typical errors specific for the given line of business:

- inappropriate set up of cost record of goods and finished product at the accountants’ office or at the warehouses, storerooms or other such storage premises;
- missing results of an inventory produced in compliance with the legislative requirements and conducted prior to preparing the annual accounting (financial) statements in cases of replacement of material accountable persons or inaccurate reflection of inventory results in the accounting;
- incorrect compilation of the actual production cost of finished product (overstated costs of raw matter stipulated in master recipes list compared to the factual);
- incorrect and untimely discharge of food wastage, etc.

All errors and distortions identified during the audit should be entered into the working documents developed by the auditing company.

However, before including the identified violations and comments into the audit opinion, it is necessary to obtain the legal evidence, that is, documented sources of data obtained through auditing the authenticity of the accounting (financial) statements in a public catering establishment. These include documents, ledgers/registers and financial statements, auditor’s estimates, experts’ opinion, information obtained from the staff of the audited establishment and from the third parties. Composition and content of evidence depend on the type of audit procedures applied and on the audit objects. An example of the like interrelation appears in Table 2.

Table 2. Interrelation between the audit objects, audit procedures and sources of evidence

No.	Audit object	Audit procedure	Source of evidence
1.	Goods	<i>Verifying the accuracy of reflection in the accounting and documentary record of goods entry and write off</i>	-Accounting policy. -Analytical record ledgers. -Sales contracts. -Delivery contract. -Invoices. -Purchase and sale books
2.	Revenue from sales	<i>Verifying completeness, timeliness and accuracy in reflection of revenue from product sales (works, services)</i>	-Accounting policy. -Analytical record ledgers. -Sales contracts. -Delivery contract. -Invoices. -Purchase and sale books
3.	Finished product	<i>Verifying accuracy in reflecting in accounting formation of the cost of finished product, recognition and write off</i>	-Master recipe list -Subsidiary ledgers -Accounting policy -Purchase and sale books
4.	Inventory of goods, raw matter (for platters) and semi- finished products	<i>Verifying the accuracy of inventory of goods, materials, semi-finished products and reflection of inventory results in the accounting and tax record</i>	-Orders entry log (Manager orders). -Manager orders. -Inventory sheets. -Inventory check sheets. -Stock-taking acts

Source: Developed by the author, bearing on the article titled “Stages of auditing: Specifics of auditing wholesale trading companies”, E.N. Varlamova [6]

Interrelation, presented in Table 2 could be laid in foundation of drawing up the audit programme and developing substantive verification procedures.

Since the turnover serves as the main indicator of the activity conducted by public catering establishments, when applying the analytical procedures special attention should be paid to this very indicator.

The turnover in public catering stands for the volume of product (purchased or own) sold to the consumers.

Higher turnover number and improvement of its structure will allow to reduce selling expenses, which in its turn, will help in boosting the efficiency of public catering establishments. The economic efficiency of a commercial organization should be interpreted as commensuration of the results obtained with the available resources and expenditures. The following could serve as the indicators in assessment of the activity conducted by public catering establishments: the expenditure growth rate to the revenue growth rate, the monthly average wage paid to the employees, the growth rate of retail turnover of economic operator, return on sales, selling expenses ratio, turnover uniformity ratio, and price index.

It looks feasible to make use of the analytical table presented in Table 3 when carrying out analysis of the efficiency of public catering establishments.

Table 3. Indicators for assessing the efficiency of public catering establishments

Indicator	Formula
<p>Expenditure growth rate (EGR) and revenue growth rate (RGR) <i>Comparison of the growth rates of these components allows to assess which of those produced positive or negative effect on the profit. Thereat, the expenditure growth rate < the revenue growth rate</i></p>	<p>EGR= $E_1/E_0 \times 100\%$, where E₁ means reported period expenditures; E₀ means previous reported period expenditures.</p> <p>RGR=$RTO_1 / RTO_0 \times 100\%$, where RTO₁ means retail turnover during the reported period; RTO₀ means retail turnover during previous reported period.</p>
<p>Monthly average wage paid to the employees (MAW) Average daily wage (ADw). <i>Serving as the source of indicator could be the statistical data</i></p>	<p>MAW = ADw x D, where ADw means average daily wage; D means number of days due to be paid according to the average wage</p>
<p>Return on sales (ROS) – describes the efficiency of product sales. <i>Serving as the source of indicator could be the statistical data</i></p>	<p>ROS= EBT/RTO, where EBT means earnings before tax; RTO means retail turnover.</p>
<p>Turnover uniformity ratio – allows to identify the uniformity of sales throughout the year and the degree of customers demand satisfaction</p>	<p>Qr = Quarterly RTO / Annual RTO, where Quarterly RTO means retail turnover per quarter of the reported year; Annual RTO means annual retail turnover.</p>
<p>Price index – shows change in the aggregate value of goods during certain period of time</p>	<p>Pi = Prep / Pbase, where Prep means price during the reported period; Pbase means price during previous period taken as 100%</p>

Source: Developed by the author based on the article titled “Analytical procedures used by the internal audit to assess the efficiency of activity conducted by the restaurant business operators”, O.N. Fedorovskih [10].

Thus, carrying out analysis of indicators presented in Table 3, allows for assessment of the efficiency of activity conducted by the public catering establishments by computing and comparing the results obtained with the expected ones. If application of analytical procedures identifies any deviation from the expected results, then the auditor should explore these discrepancies and address the management for explanation. If the management is unable to produce any reasonable explanations, then the auditor could apply a different set of analytical procedures.

CONCLUSION

The study presented in the article proves the efficiency of application of the analytical procedures when carrying out audit in public catering establishments.

Described in the paper are specific analytical procedures enhancing the quality of audit with due account for the sectoral specifics of the activity conducted by the public catering establishments; also reflected are the specific features of applying the analytical procedures at all stages of the audit. Given were the recommendations on identifying certain most typical errors encountered in auditing public catering establishments.

Moreover, the author highlighted the possibility of identifying the effect of different factors onto the deviations from the pre-set parameters traced out in the production process while applying the analytical procedures.

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