



## IMPROVEMENT OF ANALYTICAL OPERATIONS USED IN THE AUDIT OF PRODUCTION PROCESSES IN ENTITY

**Kahharova Ezoza Kahramon qizi**

Master student of Tashkent State University of Economics

### ABSTRACT

The article examines the analytical operations used in the audit of production processes in economic entities. As a result of the research, proposals were developed on the implementation of analytical procedures used in the audit of production processes based on international standards.

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### INTRODUCTION

In the process of transforming financial statements into international financial statements, business entities face a number of urgent problems that need to be solved. One of these problems is the issue of improving the analytical procedures used in the audit of production processes in economic entities based on international standards. Implementation of the used analytical operations based on international standards serves to increase the quality of the conducted audits.

### LITERATURE REVIEW

There are regulations and many views on the analytical procedures used in auditing in regulatory legal documents and economic literature.

In article 33 of "Audit Law" it is represented that audit organizations may provide the following related services:

setting up, restoration, conducting accounting and preparation of financial statements, including

preparation of financial statements in accordance with international financial reporting standards;  
performing the functions of a revision commission (financial inspector) of a legal entity, trustee of investment assets;

advising on accounting and financial reporting;

advising on the application of tax legislation, executing calculations, declarations on taxes and payments involving a tax consultant on the staff of the audit organization or engaging such a consultant on a contractual basis;

analysis of financial and economic activities and financial planning, including the preparation of business plans, economic, financial and management consulting;

conducting seminars, conferences on accounting, auditing and financial reporting, taxation, analysis of financial and economic activities and financial planning.

developing recommendations for the automation of accounting and financial reporting, information security of financial information.

An audit organization may provide other related services stipulated by the standards of auditing.

In No. 500 International audit standard it is shown that analytical procedures are one of the audit procedures of obtaining audit evidence. According to this standard, Analytical procedures consist of evaluations 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.

### RESEARCH METHODOLOGY

In our research, the methods of analysis and synthesis, as well as double entry, and documentation methods of accounting are widely used.

### ANALYSIS AND RESULTS

Analytical procedures are a type of evidence used during an audit. These procedures can indicate possible problems with the financial records of a client, which can then be investigated more thoroughly. Analytical procedures involve comparisons of different sets of financial and operational information, to see if historical relationships are continuing forward into the period under review. In most cases, these relationships should remain consistent over time. If not, it can imply that the client's financial records are incorrect, possibly due to errors or fraudulent reporting activity.

Examples of analytical procedures are as follows:

- Compare the days sales outstanding metric to the amount for previous years.

Days sales outstanding (DSO) is the average number of days that receivables remain outstanding before they are collected. It is used to determine the effectiveness of a company's credit and collection efforts in allowing credit to customers, as well as its ability to collect from them. When measured at the individual customer level, it can indicate when a customer is having cash flow troubles, since the customer will try to stretch out the amount of time before it pays invoices.

Formula of days sales outstanding:

$$(\text{Accounts receivable} \div \text{Annual revenue}) \times \text{Number of days in the year}$$

The measurement can be used internally to monitor the approximate amount of cash invested in receivables. This relationship between receivables to sales should remain about the same over time, unless there have been changes in the customer base, the credit policy of the organization, or its collection practices. This is a form of ratio analysis.

Review the current ratio over several reporting periods. This comparison of current assets until current liabilities should be about the same over time, unless the entity has altered its policies related to accounts receivable, inventory, or accounts payable. The current ratio measures the ability of an organization to pay its bills in the near-term. It is a common measure of the short-term liquidity of a business. The ratio is used by analysts to determine whether they should invest in or lend money to a business. To calculate the current ratio, divide the total of all current assets by the total of all current liabilities. The formula is:

$$\text{Current ratio} = \text{Current assets} \div \text{Current liabilities}$$

- Compare the ending balances in the compensation expense account for several years. This amount should rise somewhat in inflation. Unusual spikes may indicate that fraudulent payments are being made to fake employees through the payroll system. This is a form of trend analysis.

- Examine a trend line of bad debt expenses. Bad debt expense is the amount of an account receivable that cannot be collected. The customer has chosen not to pay this amount, either due to financial difficulties or because there is a dispute over the underlying product or service sold to the customer. To some degree, the amount of this expense reflects the credit choices made by the seller when extending credit to customers. The amount of bad debt charged to expense is derived by one of two methods, which are noted below. This amount should vary in relation to sales. If not, management may not be correctly recognizing bad debts in a timely manner. This is a form of trend analysis.

- Multiply the number of employees by the average salary to estimate the total annual compensation, and then compare the result to the actual total compensation expense for the period. The client must explain any material difference from this amount, such as bonus payments or employee leave without pay. This is a form of reasonableness test. A reasonableness test is an auditing procedure that examines the validity of accounting information. It is useful at a high level for spotting inconsistencies in data. For example, an auditor could compare a reported ending inventory balance to the amount of storage space in a company's warehouse, to see if the reported amount of inventory could fit in there. Or, a reported receivable balance is compared to the trend line of receivables for the past few years to see if the balance is reasonable. Another reasonableness test is to compare a company's gross margin percentage to the same percentage for other companies in the same industry.

When the results of these procedures are materially different from expectations, the auditor should discuss them with management. A certain amount of skepticism is needed when having this discussion, since management may not want to spend the time to delve into a detailed explanation, or may be hiding fraudulent behavior. Management responses should be documented, and could be valuable as a baseline when conducting the same analysis in the following year.

Auditors are required to engage in analytical procedures as part of an audit engagement.

## CONCLUSION

As a result of these studies, we can conclude that there is an opportunity to use many analytical operations in the audit of production processes. However, in the current transformation process, it is important to implement the analytical procedures used in the audit of the production process on the basis of international standards.

In particular, determining of days sales outstanding (DSO), review the current ratio, compare the ending balances in the compensation expense account for several years, examination of trend line of bad debt expenses. The use of such analytical operations serves to increase the reliability and quality of audit results.

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