



## Relationship of operational control and operational accounting

### Abstract

The article covers approaches to the interpretation of operational accounting and operational control, and explains their functionality for effective risk management. The article deals with relationship between operational accounting and operational control, and their impact on information quality for management decision making at all levels of enterprise,

Systematic approach to information management is investigated as a tool for operational decision-making. This article also deals with integration of elements of management accounting into operational accounting environment. Operative control is analyzed at different phases: preliminary control (deviation prevention), flow control (reducing the likelihood of deviation), and follow-up control (identification of deviations).

**Keywords:** Operational Accounting; Operational Control; Management: Risk; Management Decisions; Control Functions; Business Entities

**JEL Classification:** M40; M21; M11

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### Взаємозв'язок оперативного обліку та оперативного контролю

#### Анотація

У статті розглянуто підходи до тлумачення змісту оперативного обліку та оперативного контролю. Визначено їх функціональні завдання у процесі управління ризиками та у забезпеченні необхідної інформації для менеджерів всіх рівнів, з метою адекватного реагування на події та забезпечення прибутковості підприємств. Розкрито механізм взаємозв'язку між оперативним обліком та оперативним контролем.

Розглянуто особливості інтеграції елементів управлінського обліку в інформаційне середовище оперативного обліку. Визначено складові оперативного контролю, які забезпечують попередження відхилень (попередній контроль), знижують імовірність виконання відхилень (поточний контроль) та виявлення допущених відхилень (наступний контроль).

**Ключові слова:** оперативний облік; оперативний контроль; управління; ризики; управлінські рішення; контрольні функції; суб'єкти підприємницької діяльності.

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### Взаимосвязь оперативного учета и оперативного контроля

#### Аннотация

В статье рассмотрены взгляды различных научных направлений на содержание понятий оперативного учета и оперативного контроля. Определены их функциональные задания в процессе управления рисками и в снабжении необходимой информацией менеджеров всех уровней, с целью адекватного реагирования на события и обеспечения прибыльности предприятий. Освещены механизмы взаимосвязи между оперативным учетом и оперативным контролем. Рассмотрены особенности интеграции элементов управленческого учета в информационную среду оперативного учета. Определены составляющие оперативного контроля, обеспечивающие предупреждение отклонений (предварительный контроль), снижающие вероятность выполнения отклонений (текущий контроль) и выявление допущенных отклонений (последующий контроль).

**Ключевые слова:** оперативный учет; оперативный контроль; управление; риски; управленческие решения; контрольные функции; субъекты предпринимательской деятельности.

### 1. Formulation of the problem

Ongoing European integration, shaky economic situation, constant changes in legislation, and inflation impact directly enterprises. That makes rapid reaction to the challenges from business environment and risk management priorities for day-to-day management. Timely response requires constant and swift inflow of information from records managers, and outlines vital importance of operational control and operational accounting.

### 2. Analysis of recent research and publications

There is strong consensus on the nature of operational accounting in research literature. Most scholars agree that operational accounting is aimed at securing control over certain aspects of financial and economic activities of enterprises (Kon-dratuk & Londarenko, 2015, p. 207).

Much research on operational accounting and operational control has been done. The issues of their development are covered in Bortnikov (2010), Kondratuk & Londarenko (2015), Kuzminsky (1999), Suvarno (1998), Starenka (2015), and Tishchenko (2013). Other publications are covering different aspects of operational control nature, including Melnyk (2014; 2013), Prustyapa (2009), Jinbu & Yutao (2016), Hutsailiuk (2012), Drohov (2014) studied tasks and functions of operational accounting.

However, to the author's best knowledge, few publications are available that address the issue of relations between operational control and operational accounting in business practice.

**3. The research purpose** is to define role of operational accounting and operational control in management of enterprise,

and to determine their interrelationship in management decision making.

#### 4. The main results of the study

We can approach evolution of operational accounting from different perspective: historical development of operational accounting, research narrative in economics, or domestic process of building a theory of operational accounting (Bortnikova, 2010, p. 162).

While accounting in Ukraine is greatly influenced by mainstream international theoretical and applied studies on accounting and management, concepts of operational accounting and control - used in Ukraine - do not exist in international scholarly literature as they are absorbed by some general categories, like management accounting (Starenka, 2015).

Operational accounting precludes regulated registration, storage, categorization and ordering of information about activity of each structural unit within enterprise (Tyshchenko, 2013, p. 331).

The main distinction of operational accounting from accounting is daily prompt economic information accumulation. For quick results only partial reflection of business transactions in documents is used. The main purpose of operational accounting is to monitor and control only some business data, both in financial terms and in quantity. Lack of money value for objects or events is seen as an exclusive feature of operational accounting (Hutsaliuk, 2012, p. 167).

The function of operational accounting is closely connected to the functions of operational control, analysis, regulation of production problems and realization management decisions, but they all depend on information provided by operational accounting (Tyshchenko, 2013, p. 332).

Use of operational accounting data in operational control is defined by the quality of information about business activities within enterprise. When operational accounting provides high-quality data, external stakeholders have comprehensive understanding of issues that enterprise is facing, and can take adequate measures (Jinbu & Yutao, 2016).

Many scholars agree that operational accounting serves as a source of information for operational control. Bezrukikh, Kashaev, & Rohulya (1983, p. 9) indicate that the operating accounting is designed to provide control business processes at runtime, thus it precludes prompt and efficient delivery of information to the management. Kuzminskyy (1990, p. 4) and Shvets (2008, p. 15) argue that operational accounting represents the method of observation and control of individual transactions and processes in the key areas of business activity, in order to immediately manage them.

Operational accounting and operational control require systematic list of all types of documents used in the enterprise (both in internal and external flows), system of designation (coding) of documents within enterprise, individual documents' identification (by name, designation, origin, issue date, revision number, page number, total number of pages). Also it is necessary to have a list of all logbooks and accounting book used in the enterprise, indicating employees responsible for accounting (Tyshchenko, 2013, p. 334).

Operational control is focused on ensuring sustainable, reliable, and adequate business process. Operational control influence quality of management through comprehensive measures to determine actual state (both in qualitative and quantitative terms) of specific facilities, operations and processes (Melnyk, 2014, p. 107).

Control activities should be appropriate (appropriate measures and controls in relevant place, and commensurate to the risk involved), cost-effective (costs of control measures

should not exceed expected benefits), consistent (all employees constantly and carefully observe the rules, and do not break them in absence of management, or under heavy workload), comprehensive, and directly relate to the control objectives (International Organization of Supreme Audit Institutions, p. 29).

These reasons behind the very emergence of also influence interpretations of its substance. Vyhovska (2009, p. 320) argues that operational control prevents possible embezzlement of funds, promotes respect for financial discipline, supports timely payments, and serves the best interests of the owner. Zagorodny, Voziuk, & Smovzhenko (1997, p. 232) claim that operational control is timely assessment of the correctness, validity and appropriateness of the expenses, revenues, and payments of the enterprise.

Operational control is a «fast» tool for management, present at all stages of implementation of business tasks (Prystupa, 2009). «Control activities must be implemented thoughtfully, conscientiously, and consistently; a procedure will not be useful if performed mechanically without a sharp continuing focus on conditions to which the policy is directed. Further, it is essential that unusual conditions identified as a result of performing control activities be investigated and appropriate corrective action be taken». Reason for implementation of operational are presented in the figure 1.

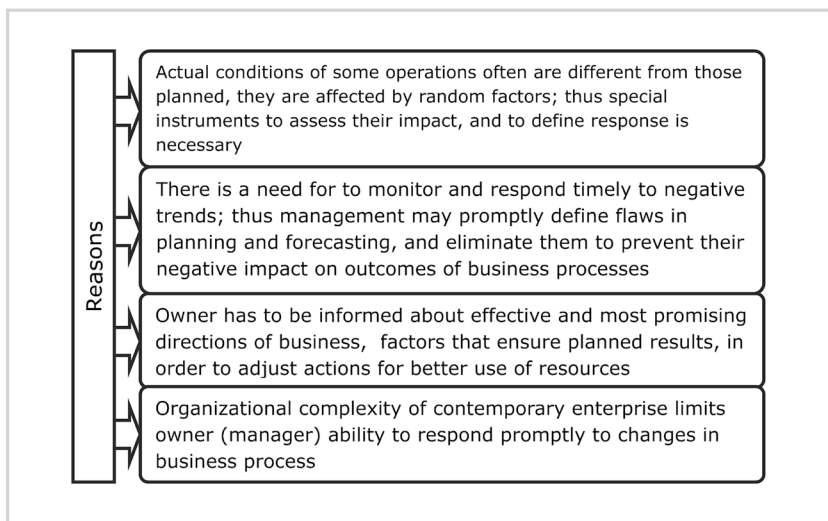


Fig. 1: Reasons for implementation of operational control  
Source: Prystupa, 2009

The importance of operational control significantly increases in market conditions, and is growing further under overcomplex, imperfect, and dynamic tax system (Suvarno, 1998, p. 47). The relationship between operational accounting and operational control is shown in Figure 2.

In some cases, operational control is performed intuitively, which makes it consistent and able to detect deviations or negative effects. In other cases human factor is moving to the forefront, which makes swift reaction regardless to negative trends possible despite lack of procedures, regulations or commissions. This features are definitely characterize operational control in a positive way (Prystupa, 2009).

Operational control is aimed at short-term activities and comprises intra-company identification of the performance indicators, and actions to adjust them in case of deviation from initial targets. In other words, operational control is an integrated system of planning, management accounting, control and analysis of business activity of enterprise, in order to improve manageability of the latter (Drohov, 2014).

In terms of organization and tools operational control is the common case of control, with the only difference in time frame for its implementation (Valuev, Horlova, & Zernov, 1991, p. 35).

It should be noted that implementation of operational accounting and control remains oversimplistic and imperfect at

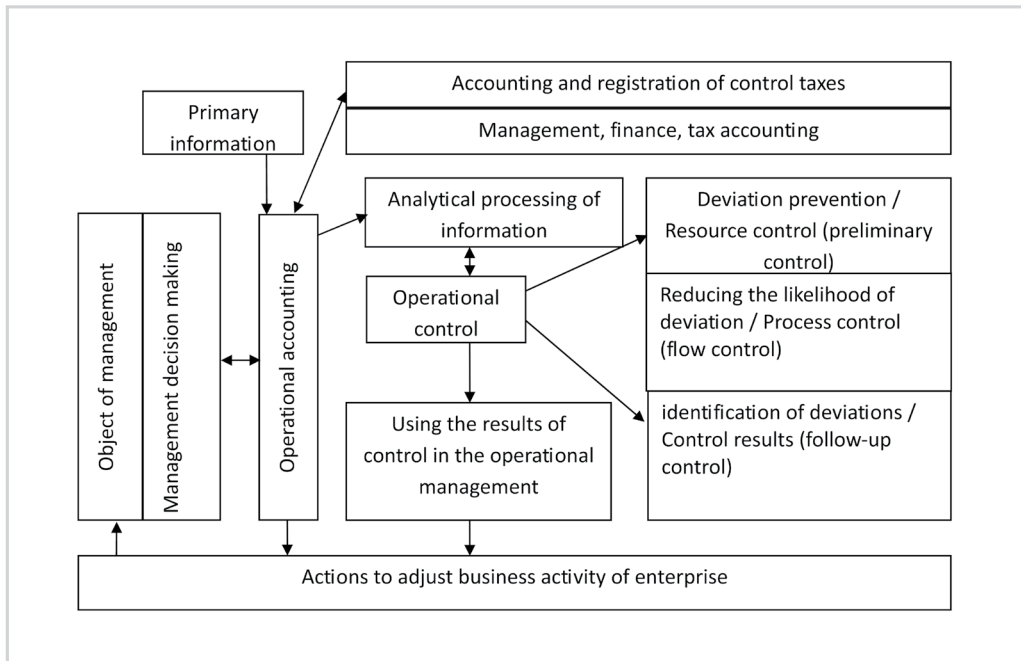


Fig. 2: Relationship between operational accounting and operational control  
Source: Elaborated by the author

many industrial enterprises, which weakens their positive effects, and, in turn, reduces efficiency of the enterprise (Starenka, 2015).

Another important aspect of the problem under investigation is relationship between operational accounting and operational control, manifested in data flows, information analysis, and practical use of evaluation in managerial decision making. The major criteria of this relationship is an ability of operational accounting to provide management with information according to their individual requests, and that of operational control to notify managers at all levels of detected deviations in due time.

Communicative function operational accounting and operational control provides information flows between structural units within enterprise. Operational accounting integrates data within management accounting by different structural units, while operative control ensures monitoring of individual units, and determines their relative impact on the enterprise as a whole.

Control function is the main purpose of operational accounting and control performed, as it ensures verification of data and indicators and defines their reliability (Kondratiuk & Londarenko, 2015, p. 212-213).

We conducted survey in Vinnytsia region in 2016 to assess quality of control over business activity in agricultural enterprises of different ownership forms. Survey was conducted in eight districts of the region, including: Chechelnyk, Koziatyn, Murovani Kurylivtsi, Mogilev-Podolsk, Bershad, Pohrebyshche, Lityn and Illintsi, and covered 61 enterprises. The goal of the research was to find internal organizational and administrative acts on operational control measures within agricultural enterprises. Among those enterprises 29.5% accounted for Agricultural LLC, 23% - for private enterprises, 18.1% - for private farms, and 16.4% - for LLC. Joint stock companies, cooperatives and state enterprises accounted for 6.5%, 4.9% and 1.6% respectively.

According to the results, agrienterprises of Vinnytsia region are using instruments of operational control. However, in most cases operational control is not applied systematically, in a comprehensive and consistent way, thus limiting its ability to provide valuable in-

formation on business activity, and to enable prediction of the impact of various factors on the financial outcomes (Table. 1).

According to our survey, in agricultural enterprises of Vinnytsia region internal audit (84%), control of the supervisory board (83.2%) and social control (80%) are perceived as least effective instruments of control. Those results underscore the importance of true control over management, results of their work, and need to increase responsibility of managers, to ensure transparency control and to introduce an effective system of incentives (Teniukh, 2008, p. 514).

**5. Conclusions**

The quality of relationship between operational accounting and operational control is instrumental for the timely reaction of managers at all levels, as they provide management with vital data and assessment tools for operative decision making. The interaction between operational control and operational is producing better result if it involves cooperation and information exchange between managers at all levels from different structural units, as it makes timely identification of risks and deviations, and adequate response more likely.

Survey conducted for agricultural enterprises in Vinnytsia region, showed that accounting control (86.9%), owner's control (87.2%), and technological control (80.0%) are seen as most reliable instrument of internal control. Besides, some managers are demonstrating awareness of the need to improve operational control at their enterprises.

Tab. 1: Effectiveness of control instruments at the agricultural enterprises of Vinnytsia region

Types and control subjects	Level, in %	
	Effectiveness of control	Formal implementation of control
Control by owner	87.2	12.8
Control by supervisory board	16.8	83.2
Company control by the audit commission	55.6	44.4
Internal audit	16.0	84.0
Managerial control	51.0	49.0
Control by permanent inventory commissions	78.8	21.2
Technology control	80.0	20.0
Control by planning and economic department	54.0	46.0
Accounting control	86.9	13.1
Social control	20.0	80.0
Employees' self-control	44.2	55.8

Source: Survey conducted by the author in 2016 at 61 agricultural enterprises of Vinnytsia region of Ukraine

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