Working capital and financial environment

[Literature](), [Russian Literature]()

Abbott and Merck require huge financial resources on research and development and financial internal control helps to evaluate and analyze the financial situation and investment risks. In 2006, Abbott has $24. 11 billion in revenue while Merck has $23. 34 billion. Merck's operating margin is 24. 48% while in Abbott operating margin is 17. 84% (Abbott Laboratories 2007; Merck and Co. 2007). Internal control suggests that all activities are reasonably under control from the perspective of costs. Cost variances can be controlled by establishing a good change control process and sticking to it. First, all requests for changes are documented. The requests describe the impact of the change on costs, the schedule, the technical integrity of the deliverable, and other work being carried out. Once they are properly formulated, they are reviewed by a panel of players who are charged with overseeing progress on the activities. Control of working capital is crucial because changes require additions to the budget and the budget should be adjusted accordingly. For Abbott and Merck, it is important to understand where the money will come from and predict possible threats. Ready cash is an important element of working capital control and analysis. Also, control programs allow managers of both companies to monitor their debtors and loans. Internal control is aimed to ensure that stocks are never run out. Developing realistic cost estimates and implementing disciplined control procedures are ways to avoid untoward cost variances. If the resources are truly tied up working on a significant disaster, the manager will have difficulty getting the resources he/she needs (Zimmerman et al 1990).

Also, effective internal control helps both companies to monitor and direct different projects and control the spending and costs of these projects. One

major responsibility of many managers is developing and adhering to a budget. Control programs allow to rate a success or failure as project managers according to whether the project comes in under, on, or over budget. Consequently, Merck and Abbott have well-developed internal control techniques that are custom-made for the organization's particular environment and operating style. In Merck and Abbott, internal control techniques predict variances on their projects-that is, deviations of actual performance from the plan. The important thing is not whether a variance exists but what its dimensions are. If a deviation lies outside an acceptable range, the variance should be flagged and its causes investigated. These changes would be impossible without effective internal control and financial analysis of the current and past performance. An advantage of internal control is that it gives managers great flexibility (Abbott Laboratories 2007; Merck and Co. 2007). Control programs and internal control techniques help companies to identify sums of money they can spend on charity and philanthropy (Zimmerman et al 1990). Also, control programs determine the market situation and available resources, life of stock, and working capital needs. Although good control will not ensure success, its absence will certainly guarantee some degree of failure. Without internal controls, it is difficult to define financial resources and capital structure.