OPPORTUNITIES FOR UPGRADING ACCOUNTING FOR LOCAL COMMUNITIES

POSIBILITĂȚI DE MODERNIZARE A CONTABILITĂȚII COMUNITĂȚILOR LOCALE

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Abstract: *Over time, accounting has followed the same process for obtaining financial statements: information in the supporting documents has been modeled using the chart of accounts, and after that, through a specific accounting process, evaluation, to assign them values that correspond to reality. Public accounting did not depart from the rules governing the process for obtaining financial statements, but specific features determined by the financing mode of public institutions, by means of ordering public managers, in primary, secondary, or tertiary credit officers, adding to them the authority to enact the budget by the principles already known, have favored the emergence of public accounting specialization.*

Key words: *upgrading, accounting, local community, accounting treatment.*

INTRODUCTION

The accounting treatment of information in "cash" databases would be the time period in which accountants were called to put in the "work" a necessity arising from the need for central statistical reporting. Obliged to prepare financial statements resulting from the use of accurately tracking the amounts allocated in the budget, by the sacrificing accountants on the altar of science accounting, subsequently they have proven its uselessness, unable to serve the information needed by users (managers, taxpayers, financial creditors etc.).

The "golden rules" that governed the treatment of accounting information have remained the same:

1. Revenues were recognized upon their receipt;
2. Expenses reflected on their payment date;

3. Assets recorded in the balance sheet and recovered on expensed at the date of entry into "heritage";
4. Liabilities made in the architecture of financial statements only as financing costs.

The effects[*] of the application of these rules soon arrived, specialists headed criticism especially on how the elements of "render accounts" were to report their financial condition of local communities. It has not escaped the critic and reformer eye of the specialist the fact that:

a) public assets, fully recovered by total depreciation, were recorded at their historical cost. It was clear that over time they would be reported below market values, either because of their physical wear or by the evolution of housing markets that was not random;

b) asset devaluation, reversible or irreversible, was not reported in outstanding taxes, not through depreciation or by provisioning;

c) public liabilities registered as the costs are financed, would become a component of the balance sheet, more formal, since the unfunded costs were not reported as part of the assets;

d) the budgetary execution account was to highlight the flow of receipts and payments, stoically served for almost 15 years to needs to know about the status of availability of local communities registered in the State Treasury accounts.

To all these shortcomings two more have been added:

a) first meant to conduct a performance of "mixing" between the balance sheet and the income statement as it is explained that in addition to assets, expenses have been highlighted, while in passive incomes were reflected, although without any justification unfunded expenses with unearned income were included in the financial statements;
b) the second meant to report "wealth" of the local budget separately from the public institutions financed from it without achieving, just as we believe it was normal, a consolidation of wealth in each administrative-territorial unit.

[*] Mardiros D.N., Scorțescu F.I. – Contabilitate publică, Editura Ion Ionescu de la Brad, Iași, 2007

MATERIALS AND METHODS

Although the indicators in the budget classification were designed to highlight income by source of origin - chapters and subchapters, and expenses according to their destination according to functional and economic classification using appropriate chapters, subchapters, articles and paragraphs, grouping these indicators was not known by nature of work undertaken by the public institution.

It became increasingly necessary to separate the budget execution account of the income statement and within these, incomes and expenditures, respectively receipts and payments that are grouped by type of work carried out as follows:

- for the income statement, public institutions' activity need to be structured into: core, financial and extraordinary activity;
- for the budgetary execution account, cash receipts and payments were to be grouped as follows: receipts and payments for operating, financial and investment activities.

Rethinking[*] the accounting treatment of accounting information according to the "accrual" based model was to base the four elements of reform that provoked accountants' familiar with the simplicity of the "cash" based model:

1) **revaluation** - as a specific accounting method was to update the value of public assets, preserved a long time at the historical cost level, to the their market value. Of course, in Romania, the update asset value model would lead to the attainment of values 2-3 times higher than their market value, but revaluat6ion was the decisive step to knowledge of net wealth available to a local community a time.

2) **depreciation** - the second element of reform, Romanian accountants have been put to heavy thinking because of it. After 15 years while accountants were accustomed to "charge" full public cost value of assets purchased with the introduction of "accrual" basis in accounting, accountants in Romania were quick to explain the introduction of depreciation based on the need of registering the physical and moral wear of assets.

[*] Pitulice C., Glăvan M. – Contabilitatea instituțiilor publice din România, Editura Contaplus, Ploieşti, 2007

In fact, the explanation for registering depreciation of public assets was hiding after accounting convenience to observe its economic content, at least for two reasons:

a) depreciation is the means by which the value of irreversible depreciation for physical and moral wear of public assets will be registered;

b) also, for the public sector depreciation is a source of funding for renewal of their own material and technical base available to public institutions, by recovering the value of depreciation by the services operator received from the credit officer.

3) **provisions** - as a reform element of "accrual" accounting, are intended to cover risks for reversible impairment.

Obstacles in the implementation of the third element of reform have not ceased to occur. The diversity issues arising from the introduction of provisions, at least in public Romanian accounting landscape, consisted of:

● defining categories of assets and liabilities for which provision may be constituted;

● identifying the moment in which appears the risk of reversible impairment of the elements;

● determining the size of the reserves value, so that the cost of public services are not improperly loaded.

4) **registration of debts and claims** - the fourth element of reform for "accrual" accounting was definitely going to change architecture of financial statements consecrated through "render accounts", as mentioned before, due to the need for statistical reporting.

The simplicity of the rules that underlie the "accrual" based model changed radically the reporting method in the financial statements of the debts and claims:

• for **debts**, the recognition of transactions and events when they occurred determined their reporting in the financial statements of unfunded liabilities, being the decisive steps towards the result concept.The debt balance is useful, at least for three reasons:

- first, to have an overview of cash flows that would be incurred in the payment of debts;
- second, to determine an important indicator of the local community, that of net wealth available to local communities at a certain time;

- third, to know the financial creditors, any debt incurred by local communities, before taking the decision to grant new loans.

• for **claims**, their recording in "accrual" bases has the same consequences as in the debt situation.

The debt balance is useful because:

- reflects the potential sources to be collected for financing expenditures which are fixed to third parties;
- help establish the correct balance of net wealth available to local authorities at a certain time.

Basically on the public accounting arena in Romania and internationally, two new components of the financial statements arise: results account and cash flow statements (receipts and payments).

The features that distinguish the two models are the result of the accounting treatment applied for transactions and the events:

a) in the cash base model, transactions and events are recognized upon receipt, respectively upon payment;

b) in the accrual base model, transactions and events are recognized at the time of their occurrence.

Leaving the common component of the two models "cash" and "accrual" respectively the balance sheet, it is time to consider a new scientific product that came at the reform table: the income statement.

Known as the patrimonial result account, form under which the "normalized accountants" Romanian accountants were willing to have it scientifically based, although this patrimonial concept will be abandoned, it appears as the second component of the financial statements.

Rethinking the accounting treatment on information of revenues, which are recognized when the right to claim is constituted in favor of the local budget and expenditures reported at the date of the registration of the obligation to the providers of goods and services, the "profit and loss" account resulted, which takes the form:

● surplus when the potential sources of revenue will be collected;

or

● deficit, when accrued but unfunded expenditures will lead to availability flows during the next years.

Receipts and payments are structured according to the nature of new public institutions' activity, meeting cash flows from the basic activity (operational), along with the financial and investment activity, resulting in:

● surplus when total revenue is greater than the total payments;

● deficit, where there is an empty treasury, which of course must be covered, either through a loan or access to the own sources of funding.

Only in this way public accounting will comply with its "social mission" to be useful to the external environment, starting with the City Council members, credit officers and taxpayers and financial creditors.

The differences between the two models "cash" and "accrual" are also determined by the structure of financial statements as follows:

● the cash model presents the balance sheet, as mentioned in the mix with the income statement, while the budget execution account is drawn up after the functional classification and then detailed by economic classification;

● the accrual model presents the performance and financial position independent and separated from the cash flow statement, ordering the items of the balance sheet by their degree of liquidity and chargeability, while the income statement account achieves the same order with different meaning in which revenues and expenditures are registered by their nature.

But the modernization of public accounting problem does not stop here. To ensure uniform treatment of accounting information and therefore comparability, credibility, transparency and completeness, normalized international accountants have taken many steps. The most crucial seems to be the one of the Public Sector Committee, established in 1995, in the International Federation of Accountants, with the development of International Public Accounting Standards (IPSAS).

The application of International Public Accounting Standards (IPSAS) will bring as a new element a structure of financial statements, it seems that this will have at least the same content as that of the International Accounting Standards (IAS), which will include: the situation on the financial position; statement of financial performance, statement of changes in net assets, cash flow statement, accounting policies and reviews of financial statements. The analysis of financial position structure shows that assets and liabilities are classified in current and non-current using the following rules:

▪ the rule of using the asset or liability in the public institution for its activity;

▪ the rule of liquidity for assets or liabilities chargeability in the short term under a year.

When these rules are not used, the ordering of assets and liabilities takes place according to their degree of liquidity, respectively chargeability.

A special case is the calculation of net asset indicator which will describe part of the value of public assets unencumbered by debt. Theoretically, two situations are possible:

1) When the net asset> 0, this will indicate the situation in which the value of assets is not fully covered by debt;

2) When the net asset <0, a situation less possible because of the limitation of indebtedness for local communities, this will indicate that assets are fully encumbered by debt, the threat of default entries exists.

As a structure, financial position also builds a new capital concept of local community which will include:

- *capital provided by other governmental units*, whatever form it takes (subsidies or transfers) including from the central government;
- *reserves* set up in various forms, from revaluation reserves to funds converted into reserve as an expression of a sustainable financing for various forms of assets;
- *accumulated surpluses/ resulted deficits* from registration by local communities as a result of reporting in the financial statements of transactions and events when they occur, take the form either of the surplus as an expression of potential financing or the form of deficit as a result of expenses incurred and unfunded;
- *minority interest*, is the first step to consolidated financial statements, an expression of holding a portion of its capital, where local communities own a part of the capital.

Although the results, whatever form they take - profit or loss, surplus or deficit, are grouped according to the nature of their business resulted from core business (operational), financial or extraordinary, financial performance differ in content because of the function it performs in the public sector, respectively private sector:

- for the public sector funding is provided in areas of socio-cultural life;
- for the private sector, funding is needed to sustain the same core business (production, service and trade) and for general administrative activities, supply or sale as appropriate.

The third component analyzed is the cash flow statement. The methods used for comparison of income flows with payments are the same as in IAS 7, respectively:

a) **direct method** - involves the identification of all transactions that are monetary and the determination for each type of activity - operational, financial investment of the net surplus or deficit.

b) **indirect method** - the method by which the net surplus or deficit will be adjusted with the effects of such transactions which are of non-monetary nature, payment commitments or past or future operating revenues and items of income and expenses associated with investment or financing cash flows.

CONCLUSIONS

We could not complete the accounting modernization of local communities' process, without reference to the public accounting relationship - performance, with the passage from the budget means to the budget results; public accounting will provide information on the objectives that the local communities have to resolve.

The accounting policies of public assets have not escaped the accounting research offering, in our opinion, methods based on depreciation, solutions for credit officers in reporting in the financial statements the original amount of public assets, with or without capitalization of costs.

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