ACCRUAL SYSTEM - POSSIBILITY FOR IMPROVING LOCAL COMMUNITIES' ACCOUNTING

SISTEMUL ACCRUAL - POSIBILITATE DE ÎMBUNĂTĂȚIRE A CONTABILITĂȚII COMUNITĂȚILOR LOCALE

FRANCA DUMITRU[1]

[1]***"Tibiscus" University Timisoara, Romania; francadumitru @yahoo.com***

Abstract: *Public accounting did not depart from the rules governing the process for obtaining financial statements, but specific features determined by financing of public institutions, means of ordering public managers in primary, secondary, or tertiary credit officers, to all adding the authority to enact the budget by the principles already known, favored the emergence of public accounting majors and between them accounting for local communities found its proper place*.

Key words**:** *financing, upgrade, local communities, financial statements*.

INTRODUCTION

Modernization of final products continues with the development of public accounting consolidated financial statements. Strengthening the public sector is required to compile financial statements from at least two reasons:

1) first reason, according to which the authorized credit officers funded from local budgets prepare their separate financial statements, so strengthening the administrative-territorial units becomes more than necessary to get to know the overall picture of financial position and performance of local communities;
2) second reason is that the rates are determined by local administrative units that they hold in the equity of public service operators in the form of securities of the nature of actions.

The issues raised by consolidation, beyond the definition and establishment of control, setting the scope of consolidation, consolidation procedures, methods of consolidation and the structure of consolidated financial statements regulated by IPSAS 6, IPSAS 7 and IPSAS 8 are determined especially for the situation of the calculation services operators:

- percentage of control that local administrative units have directly over the subordinated service operators
- percentage of control, obtained by multiplying the percentage of control previously established with the percentage of control held by the subordinate unit over the subordinated unit next in hierarchy.

MATERIALS AND METHODS

This method involves the determination of two major components of net assets/equity:

Consolidated reserve - is represented by the local community's interest on the consolidated company reserves:

Consolidated result - is part of the administrative-territorial interest in the outcome of the consolidated company.

In practice, minority interest it also establishes as part of the equity value of their returns.

The method[*], although it is a relatively simple way of consolidating that will be used by accounting specialists in Romania, presents a number of disadvantages such as:

● non-recognition of the method by the American referential as a method of consolidation;

● does not assimilate the balance sheet items and profit and loss account;

● does not eliminate the mutual operations.

However, preparation of consolidated financial statements will become a necessity born from the need to know the value of net wealth available to a local community at a certain time. Without departing from the standards recommended rules, the next "stop" will be the analysis and treatment of accounting policies applied to the assets controlled by local authorities.

The definition of assets under International Public Accounting Standards will radically alter both the process and review of their

[*] Roman C. – Gestiunea financiară a instituțiilor publice. Contabilitatea instituțiilor publice, Ediția a II-a revizuită şi adăugită, Editura Economică, Bucureşti, 2006

assessment and recognition procedures for their reporting in financial statements.

Public assets are not subject to a process of value "conservation" after the registration in the financial statements, but rather a dynamic adaptation of the accounting value to market value changes, hopefully for good, the credibility of information provided by public accounting.

The two recognition criteria are designed so that for each asset corresponding economic benefits of those assets can be defined that serve potential business and services when they are intended to provide public services.

For determining the initial value, at the acquisition price of the public asset, different components attributable to the asset were considered, which were:

a) *financial expenses*, typically for those public assets which were financed by loans, the interest being capitalized and integrated into their original value. The explanation is that the capitalization of interest expense is an expense generated by financing the establishment of public assets, while borrowed sources provided for human and material resources to obtain assets that will be used for public services.
b) *direct and overhead costs* attributable to asset until their commissioning.

Standards, to "build" baseline value for assets, take into account any costs that may arise from decommissioning, being formed, truly by using reasoning based on professional assessment provisions, which loads the value of public assets.

The logic in establishing the baseline value, as required by the International Accounting Standards, is based, roughly, on elements such as: the purchase price of public assets, interest expense in the statement of assets purchased from borrowed funds, expenditure on commissioning of public assets and any costs for the decommissioning of the expiration of their normal operation. We would be tempted to consider that complying with this reasoning, charging the purchase price with values for operation expenditure of public assets can overcome the unreasonable value of its

acquisition, market rules being broken while the purchase price is the result between confrontations of supply and demand.

Reality has shown that value-cost settlement takes place through depreciation, considering the process of reducing the baseline value of public assets as a result of aging (physical or moral) and as a means of establishing their own sources of funding.

Baseline assessment of public assets has been the subject of regulations, each of them trying to approach the reality of accounting science baseline recording of assets.

If at the beginning, the "cash" basis accounting model added to the purchase price the transport costs and the cost of irrecoverable packaging, thus forming the acquisition cost of public assets, followed, later is true enough, the "accrual" basis accounting model and International Public Accounting Standards (IPSAS s) that completed the baseline value with two new components:

- expenditure generated on the commissioning of assets;
- financial costs as a result of the creation of public assets based on borrowed sources.

We believe that local communities will be useful for some of our attempts to investigate this problem as follows:

a) transfer of revaluation differences to be made on reserves and not on financing, special purpose funds or income from previous years and other sources.
b) accounting treatment of revaluation differences will be different: when there is an observed increase in revaluation, it will be recognized as income to the extent that reverses a revaluation decrease of the same asset previously recognized as an expense, when there is a decrease of book value by revaluation, it will be recognized as an expense or it will be deducted directly from the revaluation surplus to the extent that it does not exceed the amount previously recorded as revaluation surplus.

Also useful for local communities will be mathematical models of deterministic type set for the revalued amount and the revaluation differences. Irreversible depreciation of public assets has remained

"forgotten" at least in the "accrual" accounting* model and then in international public accounting standards. Attributed to the need to reflect in public accounting of the real value of public assets, depreciation is according to Romanian accountants the result of a reduction of the initial value of the assets with physical wear, it was governed by three concepts: depreciable value, useful life and the depreciation methods.

If for depreciable value updates to the international body consist in decreasing that amount by its residual value, useful life abandons the concept of "catalogs", in which, for fiscal requirements, each activity was determined during normal use, and moves to establish periods depending on factors such as the estimated level of use of the asset, estimated physical wear and tear, moral wear or legal limits on the ability to use the asset.

With regard to depreciation methods, although Romanian accountants substantiate the depreciation process only on the straight-line method, for convenience or misunderstanding of the phenomenon, the international body, added two methods: digressive method and summing SOFTY years of life.

The reversible depreciation process was regulated along with the irreversible depreciation process by the international body and the depreciation reversible, truly in the standard project phase, known as reserves.

In conclusion, it can be said that the issues covered by international accounting body "refreshes" the content of accounting information for assets. The problem of determining the initial value of public assets, to its subsequent amendment by the revaluation, depreciation, and reserves are all indisputable evidence of the effort made by the public accounting system in order to achieve a major objective: reporting financial statements, the real value of public assets controlled by local communities in Romania and elsewhere.

Continuing the same approach, the problem of equity and debt has not been abandoned by the international accountants. While it has been noted and discussed the content of each component of equity, from the

* OMFP 1917/2005 pentru aprobarea Normelor metodologice privind organizarea şi conducerea contabilităţii instituţiilor publice, Planul de conturi pentru instituţiile publice şi instrucţiunile de aplicare a acestuia, Monitorul Oficial Nr. 1186 bis/29.12.2005

capital provided by other government entities, reserves, accumulated surplus/deficit or minority interest, now the final conclusions of this paper that give essentially, we could not stop on three indicators:

a) net wealth - new indicator introduced in the structure of public sector financial statements, designates the part of public assets that are not encumbered by debt, actually being the wealth available to local communities at a certain time;

b) report net assets / equity - the second indicator introduced in the structure of financial statements, expressing the ratio of net wealth and equity. Relatively simple mathematically calculation, is an indicator of high power, expressing the proportion that should exist between net wealth and capital community including the elements mentioned above;

c) accumulated surplus / deficit - a newcomer to the reform table is the result of the accounting treatment specific for the "accrual" basis accounting model, surplus / deficit setting as the difference between revenue and expenses incurred.

Equity, along with long-term loans will be required to finance public assets, together forming another indicator that will underpin the long-term financial stability analysis, known as permanent capital.

Beyond the accounting treatment of accounting information on debt, according to which any public commitment is recognized when obligations are formed, the merit of the international body and consists of:

a) *reporting regulation in financial statements of leasing operations*. According to IPSAS Standard 13 - "Leases", the recording value of the asset, debt that is at the lowest values of fair value and present value of minimum lease payments recorded in the lessee. As a result, the debt will be assessed to the supplier lessee accounting fair value after comparing the present value of minimum payments results throughout the lifetime of the asset.

The minimum of these values will form the basis for reporting financial statements of assets, respectively liabilities. It is understood that respecting with this reasoning, the international body has again the same purpose: reporting the real value of debt to suppliers.

b) *debt settlement of loans*. Although it is a way of financing method common in local communities' strategies, the

accounting treatment has not evolved properly. Since recognition of collecting loan as revenue and receipt of payments as an expense, to the gradual abandonment of this concept and the recognition of loans through the settlement account, these were the decisive steps that have changed the reporting of accounting information on loans in the financial statements.

The accounting treatment of revenue and public expenditure information was also affected by modernization as a result of the reform of public accounting. As principles, the accounting treatment of revenues and expenditures has been totally changed as follows:

• for the **„cash" accounting model**, revenues were recognized upon receipt while expenditures were recognized when paid;

• for the **„accrual" accounting model**, revenues are recognized when the right to claim is formed in favor of the budget, while expenditures are recognized at the date of the obligation in favor of the budget.

Based on these principles and grouping the income and expenditure by type of work carried out by public institutions in the operational, financial and extraordinary, the following results were obtained:

1) *surplus* - as an expression of financial resources surplus available to the local community at a certain time;
2) *deficit* - the result of the resource gap caused by hiring costs within budget appropriations, approved but unfunded.

What is noteworthy here, we must recognize the merit of the international body, is the dissociation between the year result and the result of budget execution, the difference between them consisting of:

a) year result - ensuring the confrontation of recorded revenues as claims with costs recorded as liabilities;
b) the result of budget execution - confrontation between accounting of receipts and payments, resulting in a surplus or deficit.

Also, public expenditures have not escaped the critical and reforming eye, especially the frequent exchange differences in community practice. Recognized in the settlement as financial revenue when the differences are favorable and as financial costs when the differences are

unfavorable, IPSAS 4 has almost the same accounting treatment as the in private sector.

The standard establishes a set of rules for reporting financial statements after the date when such foreign currency transaction took place:

a) for *monetary items*, the exchange rate used is the one used at closing;
b) for *non-cash items, denominated in foreign currencies at historical cost*, they are reported at the rate of exchange on the transaction date.
c) for *non-cash items denominated in foreign currencies at fair value*, they are reported at the exchange rate valid at the date the fair value is established.

Elements of the reform of public accounting system described rethinking concerning the accounting treatment of the information. From here to the modernization of public accounting, including local communities, there was only one step, resulting in a new structure of financial statements for performance, financial position and cash flows, a new possibility of treatment of information concerning assets, equity, debt, revenue and public expenditure, all having one goal: public accounting to reflect true and fair view of net worth available to local communities at a certain time.

CONCLUSIONS

The proposed improvements ultimately serve the purpose of any accounting system, namely the intention to provide an insight into the net wealth of owners that have identified themselves as taxpayers in public sector and to provide reliable, comparable and transparent information for external users, but all these depend of the effort of professional accountants. It remains to be seen whether the logic of upgrading the budget, along with the public accounting will help local communities to manage resources with maximum efficiency and provide services as close to citizens' needs.

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2. ***OMFP 1917/2005, Monitorul Oficial Nr. 1186 bis/29.12.2005.