

COURSE CODE: ACT 310 AND ACT 412

COURSE TITLE: PUBLIC SECTOR ACCOUNTING

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## PUBLIC SECTOR ACCOUNTING

### Defination of Accounting

The development of accounting as a field of study follows the evolutionary pattern. It is not surprising to see accounting definitions reflecting a process of change .Glautier and Underdawn (1976]submit that

‘the history of accounting reflects the evolutionary pattern of social developments and ,in this respect ,illustration how much accounting is a product of its environment and at the same time a force to changing it.

They further asserted that its earliest from was recognized around 3600Bc.it is not an over –statement that in the time to come ,accounting will keep on changing with changes in the environment that influences accounting.

The American Accounting association (AAA)(1966) defines accounting as

‘the process of identifying,measuring and communicating economic information to permit informed judgement and decisions by the users of the information;

Salmanso,Hermanson and Edward(1977}define accounting as

‘a systematic process of measuring and reporting to various users relevant financial information for decision making regarding the economic activity of an organization or unit’

Omolehinwa (2001)describe accounting as ‘the collection and recording of financial data about an organization ,whether in the private or in the public sector and analyzing the data so collected to suit the decision that needs to be taken and reporting the relevant information in a summary form to the users in a form that is meaningful to him or her.

## SECTORS WHERE ACCOUNTING IS RELEVANT

Omolehinwa was bold to say that the accounting activities are relevant or applicable in bold the private and public sectors. Accounting has entrenched its values anywhere economic activities take place . without the accounting process no establishment exists or complete in real terms.

Accounting has a target audience

All the definition states that the accounting process is not complete without communication, or reporting the end product to various users .part two of the statement of accounting standard one(SAS1), identified the following target audience.

1] Shareholders; (existing and potential) They are interested in-values ,safety and return on their investments.

2]Creditors-(existing and potential]All those who gave goods, money or services for deferred payment on short-term or long-term basis .areas of interest include – solvency ,liquidity and profitability .these guarantee the ability of the firm to repay existing facilities including interest and negotiate others. example include ;tradecreditors ,banks, debenture holders e.t.c

3]Employees ;past and present and potentials. they are interested in job security ,regular wages including pension,agitation for increased remuneration ,profit sharing,share ownership scheme,e.t.c

4]Revenue and regulatory authorities-Examples include tax authorities ,the central bank of Nigeria ,the Bureau of statistics, the federal inland revenue service ,the Nigeria Stock exchange e.t.c. Areas of interest include-

-information from economic planning and evaluation

-data for research activities

- revenues due to governments.

The following additional users could be identified.

1] local community –oil companies operating in the Niger Delta Area of Nigeria know very well that the local communities are becoming relevant in issues affecting social responsibility .As issues in pollutions ,congestion ,degradation ,despoliation ,desertion pervade the environment .these all have direct or indirect social /economic costs and implication on financial reporting .

2]information needs to customers-customers look for financial information that reflect fair pricing policies and the ingredients that constitute the pricing mode (costs,profit,taxes)

3]information needs of management-the management process (planning ,organizing, controlling and motivating)is concerned with decision making .management requires information for attaining objectives in the areas of profitability ,survival, growth ,large share of market , product leadership, increase production. E.t.c

4.information needs of competitors. –competitors in the same business could not feign ignorance of the performance of one another as reflected in financial reports .they want to know facts as what dictate the market share ,price leadership, profitability trends etc

Qualities of good accounting information

1]relevance

2]objectivity

3]verifiability

4]timeliness

5]economy or cost effectiveness

6]understandability

7]constructive rather than destructive

8]conciseness/brevity

9] incremental or marginal

10] accuracy

## GOVERNMENT ACCOUNTING

A careful reference to the definition given by Omolehinwa (2001) clearly indicates that accounting had entrenched its value and relevance in both the private and public sectors. Accounting is relevant to organisations where economic activities take place.

It was specifically that public sector accounting and finance is one of the age-long areas of accounting. Buckhead (1956) stated that budgeting in government dates back to the year 1822 while government taxation dates back to the year 1822 while government taxation dates earlier to 1215.

### Nature of government accounting

Before a down-to-heart definition of public sector or government accounting is given it is necessary to understand the nature or the outlook of what forms the bedrocks of reporting in that sector.

The primary objectives of the largest proportion of the private sector (excluding the charity outfits) is profit making, subsequently, the aim of financial reporting for that sector is profit determination for an accounting period. Financial reporting nature in government is informed and guided by its objectives, which is distinct from that of the private sector. Public sector organizations include;

-federal and state government ministries, departments and agencies.

-local government

-government parastatals

The purpose of government is not primarily to make profit, it therefore a non-profit oriented type of organization. Profitability objective strays into

government whenever and when necessary for government to set up commercialized or partially privatized parastatals, for example government joint venture with oil companies ,the former NITEL(Nigeria telecommunication Ltd)

Anthony (1978]described government as a non-profit organization that is financed majorly from source other than the sale of goods and services ,government is financed through taxes ,crude oil sales , borrowings ,grants e.t.c

The objectives of government in society according to Adam smith (1965) are

-protection of citizens from external aggression.

-protection of citizens from other members of the country and administration of justice;

-Engagement in activities that are benefit to the society as a whole because they are profitable for individual efforts.

Definition of government accounting

Omolehinwa (2001) defines government accounting as

‘the determination of how much money was received and sources of such receipt ,how much money was spent and for what purposes and what remains after meeting the financial obligations.....is more concerned with information gathering that will enable government prepare receipts and payments accounts.

Adebisi(2005)thus defined public sector accounting as

‘the process for collecting,recording,sorting ,classifying and compiling in summarized and monetary form all information about public income ,expenditure and resources and communicating the same to the appropriate level of government and or public for the purpose ,of stewardship accounting and efficient control of public funds and resources in line with the laid down rules and regulations

## OBJECTIVES OF GOVERNMENT ACCOUNTING

1]BOOK-KEEPING –Is the heart of government accounting i.e record keeping about government revenue ,expenditure and other resources .without adequate bookkeeping other objectives of government become unaccomplishable

2]STEWARDSHIP ACCOUNTING PURPOSE ; millichamp (1990)defines stewardship or custodian accounting as 'the practice by which productive resources owned by one person or group of persons are managed by another person or group of persons 'public sector accounting has the purpose of making government officials accountable on the discharge of their responsibilities as regards collection,and disbursement custody of public money or finance.

3]PROVISION OF ADEQUATE ,TIMELYAND RELEVANT FINANCIAL INFORMATION FOR BUDGETING.

In line with government's economic ,social and political commitment . government actions in policy implementation is a derivative of its planning .the key document that outlines the financial implications of its planning is the government accounting . information about flow of funds, variances, approved estimates is provided by the accounting system.

4]CONTROL PURPOSE-Is also an essential objectives of government accounting.Hicks and Gullet(1981)described controlling as; 'the process by which management sees if what happens is what suppose to happen.if not ,necessary adjustments are ,made'

Planning is quite distinct from implementation.financial implications of government budget .this provides the basis for informing and evaluating of public managerial and organizational performance regarding ,contractual and fiduciary obligation .

Parties interested in government accounting information

1]members of the executive i.e president, ministers ,governors, commissioners, local government chairperson and advisers to these executives . government financial information is required for policy making and accountability .

- 2) Top bureaucrats (permanent secretaries, general managers) require it for decision making, resources control and accountability.
- 3] heads of departments and divisions of government require it for decision making and accountability.
- 4] operational staff or technocrats with delegated tasks. they require the information for implementation of tasks and accountability.
- 5] the legislature (the national assembly, state assembly and the local government legislative arm) and their relevant committees. (public accounts committee (PAC) for the purpose of resources control and public accountability.
- 6] government aside from the government in question for the purpose of resource control and public accountability.
- 7] researchers and public opinion outfits e.g. the media, human right groups for national data bank, investors, social criticism.
- 8] the general populace for investment, questioning and government assessment.
- 9] employee unions for wages and salaries improvement and faithfulness to promises made.
- 10] foreign interest e.g. world bank, UN, other countries for grants, borrowing, assessment.

#### COMPARISON OF COMMERCIAL ACCOUNTING AND GOVERNMENT ACCOUNTING.

It was mentioned that the objectives of the private sector, which is profit-making, inclined, differ from that of the public sector (which is welfare centred). The objectives of public sector accounting were also discussed. For the avoidance of doubt, there exists differences and similarities in accounting in both sectors and these are considered below.

## Similarities

1]The public and private sector accounting report are prepared at the end of the accounting period. The fact remains that the contents may not be the same .for instance ,the private or commercial sector prepares the balance sheet whereas the public sector prepares the statement of assets and liabilities .

2]the double entry principle of book-keeping is applicable in both the commercial and government accounting ,though .ledgers may not be the same.

3] the private (commercial) and the public(government) both prepare and use budgeting system. the types ,procedures ,styles and purpose may quite differ. the strength of the public sector budgeting is far tumultuous than that of the private sector.

4]the accounting systems in both sectors lay emphasis on fund and property control.

## Differences

	Private sector	Public sector
objectives	The objective of the private sector is profitability ,sequel to this effort are directed towards achieving this end and financial data gathering for preparation of financial profit determination.	The provision of social service at reasonable and affordable cost to the citizenery remain the core objectives of the public sector.
Final books of accounts	For the purpose of financial reporting in the private and commercial sector,profit and loss account and balance sheet are paramount.	The statement of assets and liabilities are appropriation account are main books of reporting financial status.
Sources of finance	Majorly,sales income from goods and services	In the government ,taxation,oil revenue



	and proceeds from issue of share form the bedrock of revenue.	,borrowings ,grants, fines/rates constitute the source of income to finance
Target audiences	The shareholders who have the proprietary status,are the main target audience in financial reporting in the private sector other users may include the management ,employee ,government agencies and researcher.	The core audience for the public sector accounting include the executive ,legislature and the bureaucrats
Legal basis for reporting accepted .	The legal basis for commercial reporting is entrenched in various laws of the federation. Example include. -companies and allied matter act - bankruptcy Act 1979, -banks and other financial institution Act(BOFIA)1991 -CBN Act(2007) -Nigeria deposit insurance corporation Act(NDIC)1988 Insurance Act 1997	The legal basis for financial reporting in the public sector include; -The 1999 constitution - finance(Control and management]Act 1958 -Audit Act(1956) -appropriation Act -financial regulation
Fund Accounting versus entity	Financial reporting in the private sector report from the view point of the organization as an entity as differ from its owners	It is the fund system that is in operation.

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## LEGAL FRAMEWORK FOR GOVERNMENT ACCOUNTING

It should be borne in mind that the totality of government under the Nigeria systems has three arms viz; federal, state, and local government

Various accounting principles, conventions, practices, and requirements are issued at these levels expected to be adhered to by their ministries

, department, and agencies for their accounting purposes

Objectives of legalizing financial reporting in government

Ajayi (1983) observed the following as the objectives of financial control in government.

- 1] All revenue are collected and duly accounted for
- 2] All expenditure are duly authorized and accounted for
- 3] The books, records and accounts of government are properly.
- 4] The funds and properties of the government are kept under proper custody and suitable condition.
- 5] There is no improper application of government funds so that appropriate fund is spent only for the purpose it is meant for

## BUDGETING IN GOVERNMENT

Tremendous transformation, revolution and development had happened to government budget since its inception around 1215 in Britain.

Let us look at this;

1215 it was a taxation policy requiring parliamentary approval in Britain.

In the ordinary French word *bongette*-it is just a little bag.

1822-a complete statement of government expenditures and revenue presented to the parliament in Britain.

1860-chancellor of exchequer use the bag to carry revenues and expenditures statement to parliament.

1867-it was backed by the exchequer and audit department Act in Britain

19<sup>th</sup> century-government departments in the U.S.A used to send their estimates to congress individually .

1921-budget and Accounting Act passed in the U.S.A. and the president began to present budget to congress.

The practice of government budget in Nigeria dates back to the colonial era,usually called supply law.

In the president time ,budget has metamorphosed into not just a statement into not just a statement of revenues and expenditures but a policy document and an Act of the national assembly it is used to design the economic policies and paddle the economy in the direction of political,economic and social wills of a nation.

Omolehinwa(2001)defined government budget as;

The statement of expenditure preferences of government expressed in monetary terms and subject to the constraints imposed by the environment indicating how the available resources may be utilized to achieved whatever the dominant individuals within the political leadership agree to be the government priorities.”

Wildeausky (1964) said budget can mean different things to different people

‘a budget services diverse purposes it can mean different things to different people .a plan of work ,a prediction ,a link between financial resources and human behavior to accomplish policy objectives,a mechanism for making choices among alternatives expenditures,and in the government ,a record of preferences that have prevailed in the determination of national policy.

## Objectives of government budgets

The prevailing economic, political and social conditions of a nation determine specific purposes of budget in government, among broad objectives are the following ;

1]it provides a basis for articulating and working towards the achievement socio-economic vision of government in the area of jurisdiction.

2]it provide the instrument for pursuing the objective of macro economic management, such as economic growth and development, price stability and equitable distribution of wealth.

3]it enable the populace to judge government performance in target set in the budget policy.the policy areas can include ;

-inflation rate

-employment rate

-interest rate

-employment rate

-interest rate

-gross domestic growth rate

4]it provides a basis for allocating resource to government strategic areas of priorities and other competing needs.

5) It can be used to promote managerial efficiency

Other objectives are;

1]improvement in standard of living

2)an instrument for managing external reserves and balance of payment equilibrium

- 3]curtailment of wasteful spending and fiscal discipline.
- 4] A method of motivating managers to perform.
- 5] To provide a reference point for control purposes.
- 6] A tool for directing some of manager attention from the present to the future.

#### QUALITIES OF A BUDGET THAT WILL WORK

Budgets ,however good it is becomes an ordinary paper document if no deliberate effort is put in place to make it work or productive.kpakol (2002) opined that “achieving a democratic budget implementation requires a conscious and deliberate implementation requires a conscious and deliberate effort’

Therefore, a budget that will produce result should possess the following qualities;

- 1] right opinion about government budget .it should not be seen as the share of national cake or a financial diet ,financial handcuff ,penny –pinching or a sacrifice.
- 2]Avoidance of unrealistic expectation .the budget bench mark should be achievable with the time frame.
- 3]avoidance of unrealistic expectation
- 4]adequate motivation should be put in place for the operational staff in terms of office accommodation ,training, remuneration and adequate delegate authority.
- 5]budget forecast should be based on dependable adequate data base.
- 6]participatory preparation-Both the policy makers and the operational officers should participate in drawing up the budget. this would motivate them to perform.
- 7]flexibility- The economic environment is susceptible to changes .it could be at times volatile.oil revenue may dwindle, exchange rate may fluctuate.

## PROBLEMS OF GOVERNMENT BUDGET

Budgets is expected to positively impact on the standard of living of the citizen ,the economy ,the industrial private sector and help government officials serve the electorate..that government budgets have failed in these regards in the past is a well known experience. The reason for failure of government budget may not be unconnected with any of the following.

1]poor conception-ask any average civil servant what does he see to government budget? To him it might just be a mere routine or administration exercise.

2]poor Innovation-innovation gives birth to new ideas .How many of the politicians and government officials involved in the process of budget preparation and implementation really sat down to inject innovative ideas into budgeting.

3]corruption-this is one of the set backs of fruitful budgeting process. Evidences are abound in the records of the EFCC. corruption is quite endemic

4]overriding political interest

5]poor reward system. people that achieve budget targets should be rewarded to motivate them for better future performance.

6]unstable economic parameters e.g price level,unemployment ,e.t.c affect budgetary effectiveness.

7]fluctuating revenue and over –dependence on oil revenue.

## BUDGET PROCEDURES OR FORMULATION PROCESS

The beauty of budget formulation process is best seen during a democracy .the just settled budget impasse between the national assembly and the presidency on 2008 budget is a clear demonstration of our fledging democratic experience.

Budget procedure or budget cycle refers to the normal repetitive process that a budget will pass through annually from preparation to execution .this will be considered from three perspectives

- the federal budget process
- the state budget process
- the local government budget process.

### Budget components

There are two (2) major components of a budget in the government viz;

- 1] Recurrent
- 2 ] capital

### Differences between a forecast and budgets

A forecast is a prediction of what is likely to be in the future about any affairs of the economy .it could be economic ,social, finance ,political e.t.c the following are the major differences between a forecast and a budget.

- 1] forecast is broader than budget .budget is a forecast relating to financial matters.
- 2] A Budget is expressed in financial terms i.e monetary implications of government s'policy .whereas a forecast is stated in both financial and non – financial parameters.
- 3] A budget is a policy statement of government intentions,a forecast is not a policy.
- 4] A budget is an act of the legislature.forecast is not an Act .it is not sent to the legislature for approval.
- 5] forecast serves as input parameters for the preparation of budget.