International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

http://gssrr.org/index.php?journal=JournalOfBasicAndApplied

The Role and Importance of Budget Accounting and the Financial Reporting in the Municipalities in Republic of Macedonia

Igor Zdravkoski[a*], Goce Menkinoski[b], Snežana Dičevska[c], Vera Karadjova[d], Pece Nikolovski[e]

[a,b,e]Faculty of economics – Prilep, University "St. Kliment Ohridski" – Bitola, Prilepski Braniteli 133, 7500 Prilep, Republic of Macedonia

[c,d]Faculty of tourism and hospitality – Ohrid, University "St. Kliment Ohridski" – Bitola, Kej Makedonija 95, 6000 Ohrid, Republic of Macedonia

[a]Email: igorzdravkoski@gmail.com

Abstract

Municipalities are responsible for ensuring they receive sufficient revenue in order to pay for their expenditures. Planning for revenues and expenditures is accomplished by various means such as the development of a five year financial plan and an annual municipal report. Today in modern economic conditions cannot perform any activity without having financial indicators, a lot of things cannot be understand or even discussed. Here, it can be underlined the operationalization on local level i.e. the Municipalities and their efforts for more quality life of the people. This is done with resolutions that should be adopted by the mayor and his associates that have certified quality and contribution to the community. But in order that to be successful, it is necessary accounting recording of the events and transactions to be conducted, as well as their presentation to the public, which will deliver accurate, precise and timely information. In fact, the quality of the received information is reflected to the quality of the decisions made by the managers.

---

* Corresponding author.

Namely, based on the information in the financial reports a plan is generated and a strategy is formed for the development of the municipality. In this way, the mayor determines the objectives to be achieved to meet the needs of the population and to create conditions for a better life in the future.

Keywords: financial statements; cash; accrual; reporting.

1. Introduction

The financial reporting of the Government covers the financial reporting in the municipalities. This financial reporting from different governments is accepted on different grounds as financial reporting on a cash basis and as financial reporting on an accrual basis. "The determination of objectives is the first step in the national financial reporting. The objectives will then lead to the selection of substrate and determination of accounting policies.In practice the use on the basis of accounting from the government may be the result of historical development and the funds available than the result of a clear decision," says author Minovski [1].

Therefore, the accounting as the most important objective of financial reporting considers providing information to meet user needs. Namely, reporting on the results and comparability of financial and non-financial information on the results become more important to users of financial statements for purposes of general government units. "Namely, every entity is to make maximum results. Hence, every one tries to find out the cost and revenue during a particular accounting period and compare the financial results with preceding year to find out whether the business is progressing or going down. It is necessary to match the revenues with the costs of that particular period to know the profit or loss during that period" [2]. Certainly, the financial reports should ensure that financial indicators for the results properly and not completely given users of such information. Some of the features of the working environment in the public sector, i.e. units of local government that affect the nature of the information contained in the reports, are:

- Local governments are interested in the welfare of citizens, starting with the best way to finance the goods and services that should be provided to its citizens and establishment a legal framework for doing business, but not for profit;
- Local governments in general tend to receive most of their income from taxes and other non-reciprocal transactions;
- Local governments are authorized for use of public funds and management with different resources.

Various features of the state - the public sector contributed to the development of additional forms of notification that usually are not part of traditional financial reporting model for the private sector, non-financial reporting on results and more. In fact, the challenges of government-public sector are based on the need to measure the consequences of the decisions of government policy and implementation of those decisions. "In the public sector decisions are made collectively. Understanding the effects of different policies is a central part of the analysis of the economics of the public sector," says author Joseph Stiglitz [3]. Despite the differences between private and public sector, there are similarities between the two sectors in terms of the information required for the method of management or the explanation of certain individuals for their management entities.

Necessity is getting financial information on cash flows, assets and liabilities, their change, the accounting models and accounting standards developed by the private sector and transferred to the government and nonprofit sector. In the public sector are created international standards for public sector, covering parts of the private sector and giving guidance to accountants who will face budgetary accounting.

2. Financial Reporting in the Municipalities in Macedonia

The accounting persons in municipalities of Republic of Macedonia respect the rules of registration of transactions and their presentation through the preparation of financial statements. Accounting provides, as we know all the necessary information required by all users. In fact, in public sector accounting provides information on the assets used by employees in government institutions - public entities. Here, we will focus more on the municipality as an autonomous organization - enterprise. As stakeholders in the municipality, may be any individual or legal person who in any way are appropriately involved in matters related to achieving greater benefits for the community. For example, a transport company that wants to enter into an agreement with the municipality for transport services in education, a company that could be a potential contractor of a project by the municipality, other domestic or foreign investors, banks, private business enterprises in parallel with the public able to perform certain activities such as collecting and disposing of waste, there has government and tax authorities are interested in the work of the municipality. The accounting process consists of three phases, the entry phase, a process and an output stage. By recording economic events are carried value bases in currency.

The simplest accounting processes are:

- accounting on a cash basis, which is the recognition and recording only the entrance and exit of cash, and
- something more complex process is accrual accounting basis which means revenues and expenses are recognized when incurred, not only when paid or paid money.

These accounting processes are applied in most European Union countries, and thus throughout the budget year is known the real state of budget and obligations and thus facilitates control. Namely, the Low on Financing of Local Self-Government stipulates that municipalities have their own chief accountant, which along with the mayor will be responsible for applying the provisions of the accounting of budgets and budget users. In fact, the accountants are required to have special skills acquired during the work such as preparing the municipal budget and its control, to provide accounting information for municipal managers to prepare reports to be consistent with international standards, etc.

3. Financial Statements of Municipalities

Due to the need and legal obligation of municipalities, accountants should prepare financial statements and present. In all municipalities employees should work and operate on the basis of data for different purposes. Accountants prepare financial statements with numerical indicators, and thus the mayor and his advisers make decisions based on these numbers, which means through these reports provide summary information from where can make analyzes and evaluate performance of the municipality. Accounting reports shall be submitted to the

Municipal Council and the Ministry of Finance, but also can be delivered to the National Bank of the Republic of Macedonia - NBRM, State Statistical Office, Local Community Governments - LCG and others.

The quarterly financial statements include:

- report of planned expenditures,
- report on realized expenditure,
- display of the difference between planned and actual expenditures,
- explanation for all the differences,
- an explanation of what is taken to correct differences,
- display the cumulative amount of revenues and expenditures by quarter,
- display the intended result.

The annual financial statements include:

- Balance sheet,
- Income Statement, and
- Consolidated balance.

These reports are prepared at the end of the fiscal year and present the final state of the accounts.

4. Financial Reporting on Cash Basis

Financial reporting on cash basis recognizes transactions and events where cash is received or paid completely. Here I will rehearse the authors Needles, Powers, Mills and Anderson: "The revenues and expenses can be accounted for on cash received and cash paid basis. This practice is known as the cash basis of accounting.

Individuals and some entities may use the cash basis of accounting for income taxes. Under this method, revenue are reported in the period in which cash is received, and expenses are reported in the period in which cash is paid" [4].

Namely, it measures the overall financial results for a period as the difference between cash receipts and cash dispensing and form a proper accounting policy. The preparation of financial statements of the Government is based on a cash basis. Records of transactions are made only when cash is received and paid in the given period. Receiving a cash inflow of cash in full for it is registered. While cash payments are classified as current payments and capital payments. The "cash includes, as highlighted authors Wilde, Shaw and Chiapeta, are: banknotes and coins together with the amounts in deposits in bank accounts, checking accounts and many savings accounts, treasury checks accepted checks and cash receipts. Cash equivalents short-term highly liquid investment funds that meet two criteria: (1) immediately convertible into known amounts of cash and (2) very close to their due date or their market value is sensitive to changes in interest rates" [5]. Using cash basis are recognized cash such as cash on hand, cash in transit and cash deposited. Cash income can be classified according to the source or type:

- Income from reciprocal transactions,
- Income from non-reciprocal transactions,
- Financial flows,
- Capital contributions, and
- Customs incomes.

Cash payments are all cash outflows, regardless of the type they are recognized when paid. They can be classified as current or capital:

- Payments related to reciprocal transactions,
- Payments related to non-reciprocal transactions,
- Financial outflows, and
- Customs payments.

The financial statements primarily emphasize the statement of cash flows. "Information about cash flows helps users of financial statements giving grounds to assess the capabilities of the organization to realize cash and cash equivalents and the need to utilize those cash flows" [6]. They also show the cash required to finance the operations of government, taxes collected for a specified period etc.

4.1. Modified Cash Basis

The modified cash basis is to overcome some difficulties regarding cash basis. The base refers to the specific recognition of receipts and payments during the specific period. While accepting the modified cash basis and additional disclosures are often linked together, here the focus is on cash basis modifications, especially on the application of a certain period. This, the specific period, usually set up by a government resolution applies to all government entities using this basis. Typically the length of that period is approximately about one month. Due to differences and problems that occur in that period, the practice proposes the following:

- Specific period to be applied consistently from year to year,
- Specific period to be equal for payments and payments,
- There is the same criterion for recognizing income and payments during a specific period that will apply to all admissions and payments,
- One month is appropriate specific period (due to purchases of goods bought on credit), if a longer period could hamper the time of preparing the report, and
- The accounting policies used should be fully disclosed.

The basic criterion that recognizes income during the specified period is that income must have been incurred in the previous period. Some governments believe that all income during a specific period occurred in previous period and other governments still recognize only part of these incomes. The following types of income during a specific period should generally be recognized as income of the previous reporting period, and they are:

- Tax rebate where income tax is based on certain payments from previous period,
- Income from sales of goods and services where the invoice is booked at the end of the previous reporting period,
- Grants, contributions and grants that are received at the end of the previous reporting period,
- Income from interest, where interest is earned in the previous reporting period,
- Income from sales of goods when the transaction is completed and payment made at the end of the previous reporting period,
- Loans made by the Government,
- Loans where the loan agreement is completed before the end of the previous reporting period,
- Other income which are made at the end of the previous reporting period.

"The recognition and valorisation of economic transactions is enabled only when they occur, or will occur. Specifically, not only when they occur, but also when transactions will cause new situations, sizes and effects that should be recorded in the business books, stressed author Igor Zdravkoski" [7].

5. Financial Reporting on an Accrual Basis

Financial reporting on an accrual basis (accounting accrual or billed invoices) recognizes transactions and events when they occur, not when cash is received or paid. "To apply the matching rule, accountants have developed accrual accounting. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances...in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. That is accrual accounting consists of all the techniques developed by accountants to apply the matching rule. It is done in two general ways 1. by recording revenues when earned and expenses when incurred and 2. by adjusting the accounts " [8].

Basis accounting requires recognition of all assets in accordance with the generally accepted definition of assets that includes cash, accounts receivable, fixed assets and other long-term assets. This foundation recognizes the obligations associated with the products and services provided at the end of the reporting period, including salaries and other allowances. One item to be recognized must fulfill the following conditions: [9]

- If it is probable that any future economic benefit associated with the item will go in and out of the enterprise, and
- If the item has a value that can be evaluated reliably.

The financial statements are prepared and presented on the accrual basis:

- Statement of financial position,
- Statement of financial result,
- Statement of cash flows.

The government needs these financial statements because they contain information about the overall condition of the assets, liabilities, revenues and expenses and based on them may decide on:

- The services seek to provide,
- The management of the funds that are available,
- Planning of future funds or asset maintenance in the future,
- Planning to return say repayment of liabilities,
- Manage with cash and receivables.

The costs for the introduction of accounting on an accrual basis include:

- Costs for the identification and valuation of existing assets,
- Develop accounting policies,
- Establishment of accounting systems,
- Purchase of computer networks,
- Pilot testing of the systems, and
- Developing skills, ability and training of those who will prepare those who will use financial information.

5.1. Modified accrual basis

The modified accrual or accrual basis of accenting, as appropriate, should be utilized in measuring financial position and operating results [10]. Under this basis there is no recognition of certain types of assets or sources. There are plenty of examples in practice such as:

- Inclusion of all assets apart from infrastructure, defense and cultural legacy funds spent during the restoration or construction,
- Inclusion of funds and resources in accordance with the accounting basis, but with recognition of flows occurring on a cash basis, or some appropriate modifications,
- Inclusion of certain short-term financial assets and liabilities,
- Cover all liabilities with the exception of certain obligations (obligations for pensions and others.).

Based on this modification of certain types of assets are not included in the statement of financial position. Some jurisdictions recognize all assets that may be available for payment or existing financial obligations or operations in the immediate future. Others may choose not to recognize certain liabilities such as pension obligations. Rejection of certain obligations not means a departure from the accounting on an accrual basis. If the asset is not recognized in the financial statements, then the obligation cannot be recognized.

6. Conclusion

Here, we can emphasize the importance of state accounting and the moment when you realize profession purposes of certification budget accountant as special segments of the accounting system. This will give a contribution for the acquisition of skills and the formation of a professional accountant solely on state accounting and the accounting of non-profit organizations. Of course, municipalities set goal they want to be fully completed without having to make major concessions. Therefore, we will address some specific things that need to be respected, such as:

- The Law on Local Self-Government,
- The Law on Accounting for Budgets and budget users,
- The Law on Financing of Local Self-Government,
- Abiding by the requirements of IASPS,
- Abiding by the Code of Ethics.

In addition, municipalities are obliged to disclose information about income and expenses relating to education, culture, roads and transport, planning and development, social protection, environment and others. Namely, the implementation and observance of the above should not have a major deviation from what was planned with what has been achieved. But if there are major deviations, then it needs to make accurate analysis and assessment in terms of collection of taxes, costs incurred, current or capital investments, inflation, staff and technical staff, and more. And, finally will emphasize that municipalities in the country, mainly applied accounting on a cash basis, municipalities in a certain period of the year have large financial resources, but also that it is discarded at other times to borrow money. Therefore, in order to have well-prepared, adopted and implemented budget, it is necessary to have a quality information system and trained staff that could respond properly to the needs of the most demanding users of financial statements.

References

[1] Minovski Zoran, Government Accounting and Accounting for Non-Profit Organizations, page 63.
[2] Ca C.Rama Gopal, Accounting for Managers, page 30.
[3] Joseph Stiglitz, Economics of the Public Sector, 3rd Edition, page 16,18.
[4] Needles, Powers, Mills, Andrerson, Principles of Accounting, 7th Edition, page 92.
[5] Wild, Shaw, Chiappetta, Fundamental Accounting Principles, 19th Edition, page 319.
[6] Internacional Accounting Standards Committee, IAS 7, page 154.
[7] Zdravkoski. Standardization and Application of Financial Statements.page 28.
[8] Needles, Powers, Mills, Andrerson, Principles of Accounting, 7th Edition, page 93.
[9] Internacional Accounting Standards Committee, IAS, London, UK, 1999.
[10] Wilson, Hay, Kattelus, Accounting for Governmental and Nonprofit Entities, 11th Edition, page 25.