

## Concepts Of The Accounting Basis Of Government Accounting

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**Abstract:** The role of accounting and financial reporting are a key factor that determines many decisions that are taken on a daily or short term basis.

Today, in complex and modern conditions of market and capital action we must not think without having certain financial indicators at all. There is special significance of the state financial reporting no matter of the method of calculation that is used.

Here, I emphasize the importance of setting the goals that will determine the accounting basis and the future accounting policies of the state - government and governmental organizations. The provision of useful satisfying information is the main purpose determined by the accounting information system. Determining users of such information and the possibility of comparing financial statements is also an important goal. The selection of data shown in the balance sheets of financial and non-financial character becomes very important for government units that work for general purposes.

Namely, the quality of government financial reporting is also reflected in the correctness of the decisions of the managers.

As a matter of fact, based on the data and information in the financial statements, plans for the future development of the organization or unit are created.

In fact, government financial reporting may use a cash basis for accounting and may be presented as a financial reporting on an accrual basis, or an accounting for an occurrence. The same bases are used both as a modified cash basis and a modified accrual basis. Acceptance of a modified cash basis is most often associated with additional disclosure. The application of a specific period is usually the reason for its use. While a modified accrual basis is most often associated with the acceptance or non-acceptance of certain types of assets or sources of funds.

**Keywords:** state - government, financial reporting, basis for calculation.

### Introduction

The financial reporting covers a wide range of information regardless of the accepted accounting basis by the entity. State (government) financial reporting is the main leverage that supports the realization of objectives in the performance of tasks. The qualitative characteristics, the ability for alternative solutions, the determination of clear and correct guidelines in the work are the basis for selecting the accounting concept. Consequently, the choice of the basis is whether the used or accepted accounting basis fits into the entity's accounting policies to be applied or rejected.

In fact, users have a great need to know the results, to monitor financial and non-financial information, which means they need to ensure that the financial indicators in the financial statements are correctly, completely and accurately transferred to them. The specifics of the state-public sector require additional forms of reporting that are usually customary in the private sector - the business sector is not needed.

Naturally, the challenge and the possibility of measuring the consequences of the decisions of the government and the state sector should be emphasized. It is also necessary to emphasize the unification of the framework for the preparation and presentation of financial statements as well as the implementation of international public sector accounting standards. This set of standards has a particular focus on financial reporting in the public sector.

Namely, the International Public Sector Accounting Standards are intended to co-ordinate financial reporting on cash basis and financial reporting on an accrual basis.

The cash basis recognizes cash and almost cash.

However, the accounting basis recognizes transactions and events when they occur.

In fact, the accounting base requires the recognition of all assets that are in accordance with the generally accepted definition of assets.

## 1. Financial Reporting On A Cash Basis And Modified Cash Basis

Cash-based financial reporting encompasses accounting on a cash basis and a modified cash basis.

Namely, it measures the overall financial result for a certain period as the difference between cash receipts and cash issuances and an appropriate accounting policy is formed. This basis recognizes transactions and events where cash is fully received or paid.

In fact, any change in cash assets that may arise as a result of a movement in exchange differences (profits or losses) needs to be specifically disclosed. Of course, the report should emphasize the course, the conditions, the method of valuing the cash equivalents, and so on. Also, if it comes to gold and gold components, they should be set out in a separate report. The preparation of the financial statements of the Government is done on a cash basis. Transaction records are made only when the money is received and paid during the given period. Cash receipt is a cash flow in full for which a record is made. All entities that use this basis recognize all means that are received. These incomes include all income from exchange transactions, all assets from non-reciprocal transactions, other financial inflows, capital contributions, customs revenues, and others.

Namely, cash records are recognized by keeping records based on cash basis, such as cash on hand, cash in transit and deposited cash. Cash payment is considered when cash is paid, regardless of type. They are classified as current payments and capital payments. Cash payments can be classified as current or capital and include: payments related to reciprocal transactions, payments related to non-reciprocal transactions, financial outflows, and customs payments, etc. Financial reporting is practiced through financial statements that are primarily highlighted in the cash flow statement. But when making a group of reports according to a unit where each is a part of the government, consolidated reports are prepared.

According to International Accounting Standard 7, "Cash Flow Information helps users of financial statements in providing basics to assess the organization's ability to realize cash and cash equivalents and the need to use those cash flows."

They also show the cash needed to finance the activities of the Government, taxes collected for a certain period, and so on.

While cash-based financial statements show an assessment of the statutory budgets with contractual requirements. This information is useful for lawmakers who can perceive government responsibility and spending as compared to needs.

Namely, "cash includes, as the authors Wilde, Shaw and Chiappetta emphasize: banknotes and coins together with the amounts in deposits in bank accounts, check accounts and many savings accounts, treasury bills, recognized checks and cash receipts. Cash equivalents are short-term highly liquid investments assets that meet two criteria (1) are immediately convertible into a known cash amount; and (2) are very close to their maturity date, so their market value is not sensitive to changes in interest rates and. "

### 1.1.Characteristics Of Modified Cash Basis

The modified cash basis is to overcome some difficulties with the cash basis. This basis refers to the recognition of certain income and payments during the specific period.

Although the acceptance of the modified cash basis and additional disclosure are usually interconnected and go together, here the focus is placed on modifications to the cash basis, especially the application of the specific period. This, specific period, is most often established with a government resolution and applies to all government entities that use this basis. Usually the length of that period is about a month.

Due to the differences and problems that arise around this period, the practice proposes the following:

- ★ The specific period to be applied consistently from year to year,
- ★ The specific period to be equal for both payments and payments,
- ★ To have the same criterion for recognizing income and payments during the specific period that will apply to all receipts and payments,
- ★ One month is a suitable specific period (for purchases of goods purchased on credit), if it is longer than the period may make the preparation of the report more difficult, and

- ★ The accounting policy used should be fully disclosed.

The basic criterion by which payouts are recognized during the specific period is that they must have occurred in the previous period. Some governments believe that all incomes during the specific period have occurred after a previous period, and other governments recognize only a portion of these incomes.

The following types of income during the specific period should generally be recognized as income from the previous reporting period, and they are:

- ★ Tax incomes where the tax return is based on certain payments from the previous period,
- ★ Receipts from sales of goods and services where the invoice is billed at the end of the previous reporting period,
- ★ Grants, contributions and grants received at the end of the previous reporting period,
- ★ Interest receivables, where the interest rates were realized in the previous reporting period,
- ★ Receipts from sales of goods where the transaction is completed and payments were made at the end of the previous reporting period,
- ★ Loans made by the Government to be recovered in a specific period,
- ★ Loans where the loan agreement is compiled before the end of the previous reporting period,
- ★ Other incomes made at the end of the previous reporting period.

"Recognition and valorization of economic transactions is only possible when they occur, that is, they will occur. More specifically, not only when they occur, but also when transactions will cause new conditions, sizes and effects that need to be recorded in the business books, stressed by the author Zdravkoski. "

## **2.Accounting On An Accrual Basis And Financial Statements**

It is common knowledge that accountants record the largest number of transactions in the diary and the general ledger.

Namely, each transaction in its part causes some movement.

In fact, there are certain - changes - that accountants recognize only at the end of the accounting period.

Therefore, we face the difference between each other and the transaction where we get the term - explicit and implicit transactions -. These, explicit transactions are visible events, for example, payment of cash, purchase and sale, receipt of cash, etc. The occurrence of a particular economic event is also a proper book-entry. This entry must be followed and verified with an appropriate original document. Contrary to explicit transactions there are implicit transactions. These are events that are not confirmed with original documents and do not have a certain visible record. All this is done because until the end of the accounting period these transactions are not recorded and no reporting is received. Which means that they are not recognized until the end of the accounting period.

Namely, such events are defined in separate books and in the preparation of the financial statements their financial effect is determined. These distinctions represent the essence of accounting on an accrual basis.

In fact, the accounting basis implies the accumulation of claims (assets) or liabilities for payment of (various liabilities) over a given period.

In addition, to accumulating claims and liabilities for payments in the balance sheet, appropriate income or expense in the income statement should also be recognized. This confirms that each distinction causes a certain change (impact) both on the balance sheet and on the profit and loss account.

Namely, the derogations aim to ensure and confirm the recording of all accounts of assets, liabilities and equity, as well as their presentation in the financial statements. Implicit transactions can be divided into four groups: 1) acquisition of unnecessary expenses, 2) earning revenues that are pre-paid, 3) delineation of unregistered expenditures, and 4) separation of unregistered revenues.

Figure 2. Dual Roles of Governmental Financial Statements in Assessing<sup>1</sup>

	<b>Operational Accountability</b>	<b>Fiscal Accountability</b>
<b>Statements</b>	Government-wide financial statements (governmental and business-type activities) and those of proprietary funds and fiduciary funds	Governmental fund financial statements
<b>Measurement focus</b>	Flow of economic resources	Flow of current financial resources
<b>Basis of accounting</b>	Accrual basis (revenues and expenses are recognized when exchange of economic resources occurs or per GASB recognition rules for nonexchange transactions, such as taxes, contributions, and grants)	Modified accrual basis (revenues are recognized when resources are measurable and available for current spending; expenditures are recognized when an obligation to spend current financial resources is incurred)

### 2.1. Financial Reporting On An Accrual Basis

The financial reporting on an accrual basis consists of accounting on an accrual basis and a modified accrual basis.

Namely, accounting on an accrual basis recognizes transactions when they occur, and therefore it is also called accounting for an occurrence.

In fact, by keeping accounting on an accrual basis, the asset is fully covered. This means that the financial statements contain complete information on cash flows. This means that the cash flow statement is an integral part of the consolidated financial statements. It is also necessary to note that the accounting basis uses two methods of measurement.

The first way is according to past expenses, and the second is according to current costs. Of course, in the presentation of the information and the preparation of the financial statements, it is necessary to emphasize how they are presented. Recognition of assets on this basis is in accordance with the definition of assets (cash, fixed assets, receivables, etc.).

Here, the obligations that are determined at the end of the accounting period, which is usually one year, are also recognized, but may also be in shorter interval.

Namely, the reporting period includes salaries and other fees, lending and debts, transfers that are due for collection, and more. As I mentioned earlier, in the period of occurrence, certain transactions are distinguished, some of which represent the acquisition of funds, other use of funds, and third and fourth leads to the acquisition of obligations or payment of obligations.

From here, you can see the link between revenue and expenditure with the corresponding period.

### 3. Accounting Period Of Financial Reporting

The information in itself does not represent anything special. But their usefulness comes from the need for timely and accurate information among the interested users. Of course, making decisions by the government and the public sector would not be so much right if they do not have data and information.

Namely, the time period for which the financial statements are required should be determined, thus obtaining various accounting periods with the required information. But there may also be a need for interoperable reports. Once the events and transactions are recorded, a certain number of accounts needs to be adjusted before their amounts appear in the accounting statements.

In fact, this is done because internal transactions and events remain unregistered. Accounting uses an adjustment process on an accrual basis to recognize revenue when it is earned and expenses when incurred.

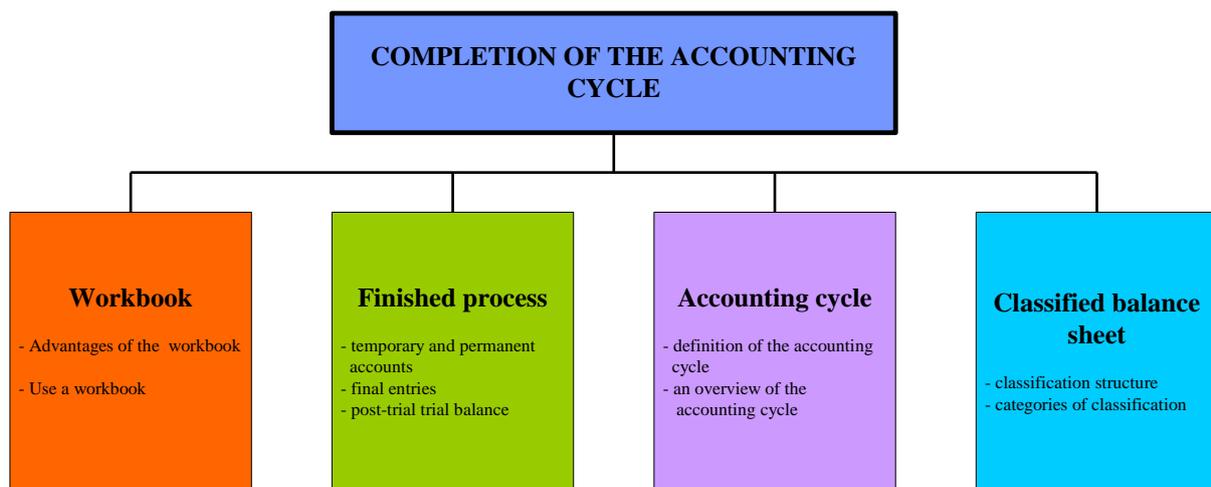
<sup>1</sup> Wilson, Reck , Kattelus. (2010). Accounting for Governmental and Nonprofit Entities, pp.11.

While cash accounting, it records revenue when cash is received, and also records expenses when cash is paid. But the method of this bookkeeping according to the accepted accounting standards is not complete.

Namely, accounting on an accrual basis better presents the balance of the balances of the accounts.

This concept of records better performs the comparability of financial statements between one and the other period. The process of adjusting the accounts intends to determine the account balance to its exact amount. These adjustments are made for transactions and events that span over multiple periods. Financial reporting and the selection of an appropriate concept of accounting records, just like in the private and business sectors, as well as in the government - public sector must be completed in order to realize the advantages that will enable the adoption of correct and correct decisions and solutions.

Figure 2. Completion of the accounting cycle<sup>2</sup>



## Conclusion

First of all, it is necessary to emphasize the importance of the concept of cash basis as the principles on which this basis is based are easy to understand. Characteristic for accounting on a cash basis is that quality data are presented in a high quality. So, the information has a high degree of security and comparability. The method of presentation of cash-based information has clarity in payments and receipt of cash, making it more understandable.

In fact, the simplicity of the cash financial report requires lower costs in the provision of professionals, staff, the establishment of a budget accounting system, and so on.

Namely, the lack of records on a cash basis is that it does not provide information about the capital (assets). That is why some governments, in addition to cash financial reporting, create detailed reports with a large number of data on the available funds, how these funds are used, what shortage or excess they have, etc. While the modified cash basis perceives the current financial means, i.e. the size of the cash and almost cash in a specific period. This also means better control of the assets.

The financial statements come directly from the accounting information system of the company, state institutions, government units and others from the public sector. These reports provide useful information when assessing the company's financial performance. In this way, users have a wide range of information of financial and non-financial nature.

Namely, this is a much easier way of anticipating future work and making decisions. The concept of selecting an accounting basis is very important. Of course, the state financial reporting uses the cash basis, but with a tendency to transfer it to an accrual basis.

<sup>2</sup> Wild, Shaw, Chiappetta, Fundamental Accounting Principles, pp.136.

Accounting on an accrual basis adjusts certain accounts so that revenues can be recognized when they are earned, and also when expenses are incurred.

In fact, the adjustment aims to bring the balances of accounts up to their exact amount.

This means that government financial reporting gives users:

- ★ Recognizing the financial situation,
- ★ Recognizing the justifiability of assets in their use,
- ★ Assessment of the performance of the assigned tasks,
- ★ Assessment of the fulfillment of receivables,
- ★ Insight into changes in financial and non-financial activities.

Namely, accounting on an accrual basis enables measurement of the financial efficiency of the state whole, and also provides more transparent information on the work of the government and satisfaction of the needs of the citizens.

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