

## Chapter 4

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### **INTERNATIONAL ACCOUNTING STANDARDS IN THE CONTEXT OF ACCOUNTING AND STATEMENTS OF PUBLIC ADMINISTRATION IN SLOVAKIA**

**Abstract :** In the article we deal with characteristic of international accounting standards and their application in public administration in Slovakia. We also compare accrual versus cash accounting system.

We analysis work proses of the systems of accounting and reporting - logistics process information work.

**Key words:** international accounting standards for the public sector, the accrual principle, the principle of cash, financial statements

#### **4.1. Introduction**

For effective management in the public sector are quality financial information essential. The role of public sector accounting is to provide a database of relevant information for the management of public finances and the need for transformation results of operations of Slovakia in the EU. The need for benchmarking and evaluation organizations across the EU requires the financial accounting and reporting, which is represented by the International Accounting Standards for the Public Sector (IPSAS).

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## 4.2. Characteristics of IPSAS

International accounting standards for the public sector (IPSAS) contains a set of 32 standards. Standards are approved and published under the title "International Public Sector Accounting Standards Board" (IPSASB or IPSAS-Board). IPSAS are aimed at improving the quality and transparency of public sector financial reporting and accounting methodologies. Countries such as Switzerland, Austria, Netherlands, France, wholly or partially have already implemented legislation to these standards. All standards are, in principle, published in English. In terms of content, most of IPSAS must comply with International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), which are focused on accounting for business. Overview of standards in the Table. 4.1.

*Table 4.1. Overview of standards based on the accrual principle*

<b>Standard IPSAS</b>	<b>Year of publication</b>	<b>IAS / IFRS from which the IPSAS standard based</b>
IPSAS 1	2000	IAS 1 – Presentation of financial statements
IPSAS 2	2000	IAS 7 – Cash – flow statements
IPSAS 3	2000	IAS 8 – Accounting policies, changes in accounting estimates and errors
IPSAS 4	2000	IAS 21 – The effects of changes in foreign exchange rates
IPSAS 5	2000	IAS 23 – Borrowing costs
IPSAS 6	2000	IAS 27 – Consolidated and separate financial statements
IPSAS 7	2000	IAS 28 – Investments in associates
IPSAS 8	2000	IAS 31 – Interests in joint ventures
IPSAS 9	2001	IAS 18 – Revenue
IPSAS 10	2001	IAS 29 - Financial reporting in hyperinflationary economies
IPSAS 11	2001	IAS 11 – Construction contracts
IPSAS 12	2001	IAS 2 – Inventories
IPSAS 13	2001	IAS 17 – Leases
IPSAS 14	2001	IAS 10 – Events after the balance sheet date
IPSAS 15	2001	IAS 32 – Financial instruments : presentation
IPSAS 16	2001	IAS 40 – Investment property
IPSAS 17	2001	IAS 16 – Property, plant and equipment
IPSAS 18	2002	IAS 14 – Segment reporting

IPSAS 19	2002	IAS 37 – Provisions, contingent liabilities and contingent assets
IPSAS 20	2002	IAS 24 – Related party disclosures
IPSAS 21	2004	IAS 36 – Impairment of assets
IPSAS 22	2006	There is no relevant IAS / IFRS, of which that is based IPSAS
IPSAS 23	2006	There is no relevant IAS / IFRS, of which that is based IPSAS
IPSAS 24	2006	There is no relevant IAS / IFRS, of which that is based IPSAS
IPSAS 25	2008	IAS 19 – Employee benefits
IPSAS 26	2008	IAS 36 – Impairment of assets
IPSAS 27	2009	IAS 41 – Agriculture
IPSAS 28	2010	IAS 32 – Financial instruments : presentation
IPSAS 29	2010	IAS 39 – Financial instruments : recognition and measurement
IPSAS 30	2010	IFRS 7 – Financial instruments : disclosures
IPSAS 31	2010	IAS 38 – Intangible assets

Source: (KRŠEKOVÁ, M. 2011)

In the context of international accounting standards for the public sector important function has the International Federation of Accountants (IFAC). Founded in 1977, currently consists of 172 members and associates in 129 countries of the world, representing approximately 2,5 million accountants in practice, education, civil service, industry and commerce.

The Federation contributes to the development, adoption and implementation of high quality international accounting standards for the public sector, especially through actions in support of international public sector accounting (IPSASB Standards Board). IFAC issues guides, standards and other publications and is copyrighted. IPSAS independence is ensured in several ways:

- complete transparency, and for professional honor, both for the public,
  - participation of observers in the standard-setting process.
- IFAC Council established the International Accounting Standards for the Public Sector with effect from November 2004 to pursue high-quality

accounting standards for public sector entities around the world, facilitate the process of convergence of national and international standards and promote their application for improving financial management, increase accountability in public sector, improving the quality and comparability of the reporting of information in the financial statements and to ensure compliance with the basic objective of financial statements. The Council replaced the original committee for the public sector. (KRŠEKOVÁ, M. 2011)

#### **4.3. Accrual versus cash accounting system**

For current developments in the world economy is characterized by international integration acquiring global dimensions. Given such developments in the world economy observed in addition to the international flow of goods and capital flows including economic information, which is just an essential resource accounting. For this reason, it is a natural process of international harmonization of accounting and control, intended to overcome the existing differences between national accounting systems. Trends in the European Union is to unify the accounting and reporting of state and public sector, and the Slovak Republic acceded to the implementation of accrual accounting and international accounting standards for the public sector in our legislation.

The general trend in European Union countries is an attempt to unify the accounting and reporting of state and public sector on an accrual basis, the European Commission recommends the use of international accounting standards for the public sector. The accounting system of the European Commission in 2005 was based on cash flow. This system recorded only budgeted revenue and expenditure during the year, which was supplemented by information at the end of the year, which were required to prepare financial statements. As the auditor's report on the audited financial statements for 2002 indicate significant problems in the prior accounting system, the European Commission decided to implement the project transition to accrual accounting, which defined:

- the new accounting system - unified data format, a fully integrated input data into the information system, the consistency of central and sectoral systems, perennial consistency of data and information, full accrual basis in accordance with international standards, - Information technology - one data input, full of integration systems, eliminating double data, effective data security, data credibility, auditability guarantee, etc.

The harmonization of accounting is the process of convergence of accounting principles, accounting policies, accounting rules and balancing, and in particular the content of the financial statements of each country so that they were comparable and transparent information for users of financial statements in any country in the world.

Gradual alignment of the contents of the financial statements is referred as the process of harmonization. Underlying this process is the creation of accounting standards that are widely accepted and used the main requirements (GUZYOVÁ, K. 2007).

In the process of international harmonization of accounting since 2005 has separate accounts instead of the public sector. Issuance of international accounting standards for the public sector has expanded international harmonization of accounting also for control of such a specific area, such as public sector accounting. The international harmonization of regulatory and accounting develops and publishes International Federation of Accountants - Public Sector Committee - set of recommended accounting standards for public sector entities, referred as International Accounting Standards for the Public Sector (International Public Sector Accounting Standards - IPSASs). To develop a set of accounting standards for public sector entities around the world working committee to achieve its objective, which was defined in the preface to the international accounting standards for the public sector as follows: to develop a program aimed at improving financial management and accountability in the public sector, including development of accounting standards and promote their application.

As the International Accounting Standards for the Public Sector (IPSAS) are derived from international accounting standards for the private sector, the chart of accounts for entities according to the methodology of the European Union - ESA 95 - European System of Accounts, income and expenses are adjusted on an accrual basis, taking into account also moves the assets and liabilities of public organizations with links to the system of National Accounts. This advanced methodology provides information on the overall management of public finances, which are key inputs in the analysis of the financial management of public administration and information resources for investors.

- The most significant changes in accounting procedures and methodology in reporting ( income statement balance sheet, income statement and notes ) state and local governments are : Survey profit by comparing costs and benefits of all public administration entities
- The introduction of accounting for revenues in the main business entities,
- The requirement to provisioning, provisioning and billing accruing costs and benefits and the main activities of budgetary organizations, municipalities and higher territorial units,
- Changes in the method of financing subordinate organizations founded and introducing the concept of " transfer " to describe the mutual settlement of relations,
- Changes in accounting have links to the financial statements (balance sheet, income statement, notes). The balance sheet shows equity is recognized uniform profit and introduced themselves reporting accounting relations between the founder and subordinate organizations. The income statement is united ( change in the structure of costs and revenues) for all public administration entities.

Public budgets and allocation of funds are traditionally compiled on a cash basis. It was one of the factors that led to the preoccupation with the

cash basis of accounting in the public sector. The popularity of cash basis accounting in government arose from the need to monitor the annual collection of tax revenues and the subsequent issuance of such revenue. Cash basis focused on cash flow during the period and also provides a basis for comparison with the budget. Information obtained from financial statements by direct comparison between the budget and the fact they are useful to the legislature and other external and internal users' monitoring actual expenditure compared to budgeted expenditure.

Cash accounting provides information about cash flow and allows to monitor expenditure compared to reality by a cash basis, it is not intended to meet the information needs. Its aim is to report cash in, cash losses and changes in cash balances. Ignores other flows of funds, which may also affect the ability of the public sector to provide goods and services. One of the advantages over other cash accounting basis of accounting is that preparers of financial statements are not forced to implement any decision in determining the cash flows for the year and have the possibility to manage the timing of cash flows or income withholding payments until the next reporting period and thus exhibit favorable, respectively adverse results. In this sense, the cash basis less subjective than other bases of accounting. Despite the apparent simplicity cash accounting in practice may not be easy for users to understand the financial statements, which is largely due to the practice of creating very detailed reporting of income and payments (detailed classification of income and expenses), which greatly influences the intensity of bookkeeping. Under cash accounting, all cash receipts and expenditures, regardless of type, recognize at the time of receipt or cash advances. (FABIAN, Š. 2005)

Accrual basis - the effects of accounting transactions and other events showing the moment when incurred (rather than when cash or cash equivalents received or issued) and are recorded in the accounting books and reported in the financial statements in the period to which they relate.

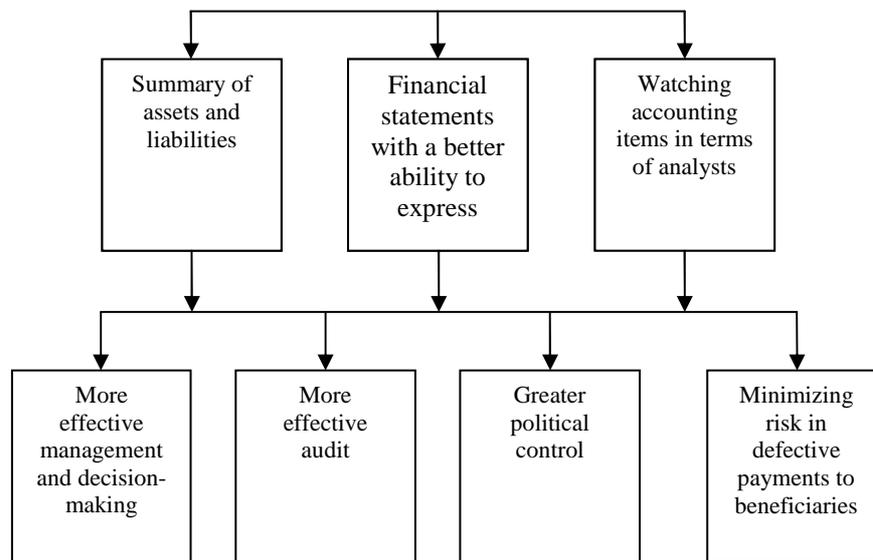
Accrual basis as one of the pillars of double-entry accounting principles forms the basis of all costs and revenues in the period in which

they are incurred, regardless of the date of payment or collection or on the settlement date otherwise . Accrual basis to ensure the application of timing differentiation of accrual expenses and revenues. Accrual principle emphasizes the independence of the accounting period, which is important in arriving at the profit or loss for the current period , which does not take into account the results of operations in other periods. Accrual basis helps to ensure that financial statements are prepared on the basis of the true and faithful, leading to a true and fair view of the facts of the management company.

Model accrual accounting, which is the basis for financial reporting under international accounting standards is included and explained mainly by the framework to international accounting standards IAS / IFRS. Accrual basis transferred to the accounts of government and self-government means that accounting provides information about assets, liabilities, expenses, revenues, income and expenses in the period in which the transaction originated . Versus cash basis to be these transactions recognized in the period when incurred and not in the period when received or paid cash related to these transactions. Another condition for the application of accrual basis of maintaining continuity duration of the entity. This principle is also enshrined in the New Financial Regulation. ( FABIAN,Š. 2005) .

In cash accounting, transactions are recorded only when the receipt or payment of cash. Unlike accrual accounting, cash accounting does not distinguish between the purchase of assets and the payment of expenses. It does not follow yields only costs because profit and loss account has no informative value. There are essentially only receive various subsidies from various entities in relation to their utilization and also the budget.

Advantages of accounting on an accrual basis are shown in the following table.



**Fig. 4.1. Benefits of accrual accounting.**

Source: GUZYOVÁ, K.2007

#### **4.4. Logistics process information work**

European Federation of Accountants recommends that governments and public sector entities use the accrual basis of accounting, because it brings transparency, clarity and comparability of financial information in the public sector in Europe and beyond.

The adoption of a single set of accounting standards , based on an accrual basis at all levels of government across the EU would bring clear benefits in terms of governance and public sector management. It is expected that accrual accounting at the microeconomic level in the public sector will improve the efficiency and effectiveness of public administration and facilitate the provision of liquidity, which is a prerequisite for the maintenance and operation of public services. As is

the case with any other business, the management and control efficiency and effectiveness of public sector depends on the management and control of its economic and financial situation and the results of its operations. Double-entry accrual accounting is the only universally accepted system that provides the necessary information reliably and on time. Harmonized accounting of public administration, based on an accrual basis, in addition to improving transparency, accountability and comparability of financial reporting in the public sector and can serve to improve the efficiency and effectiveness of public audit.

Most Member States have introduced accrual accounting in government sector according to their national standards or is in the process of its implementation. Eleven Member States have mixed systems, it means has established various accounting procedures at different levels of public administration. Accounting framework and accounting systems of the European Commission and other EU institutions and bodies, are based on an accrual basis and inspired by international accounting standards for the public sector. The same is true for various other international organizations.

Structured presentation of the facts in view of the above attributes represent financial statement. This creates the conclusion of financial accounting. It can be characterized as a "summary of data" normal accounting records and their arrangement in the annual reports, which form and content are mandatorily covered by the Ministry of Finance of the Slovak Republic. The financial statements performs several tasks:

- The role of information ,
- Documentary role ,
- Monitoring role ,
- Be the subject to verification by an auditor.

Financial statements are a source of information for different candidates, for example - information for users who make an informed decisions, - auditors , financial analysts or random users. These informations apply to the following areas :

- The amount and structure of assets,
- The amount and structure of liabilities,
- The amount and structure of equity,
- Financial position and changes in financial position,
- Cash flow - incomes and expenditure,
- Costs, revenue, economic results, profitability.

In § 17 of the Accounting Act states that the financial statements are a structured representation of the facts, which are subject to accounting. The law also defines the general terms and components, it means what constitutes accounts in double entry bookkeeping. These are:

- Balance sheet,
- Income statement,
- Notes.

The balance sheet is a polished, organized in the form of money and property comparisons of financial resources in the form of a specific date. The basic function of the balance sheet is to give the organization a certain date overview of its financial situation. Therefore, the balance sheet is drawn up at least once a year and in the end of the accounting period. Organizations but also make the balance sheet more often, and it usually quarterly. The balance sheet is actually "balance ", which means two-armed scale, which is in balance. The main components of the balance sheet as assets and liabilities. Assets are different kinds of property, it means things that have value to the organization. Liabilities represent sources of asset coverage, which may be their own or foreign.

Steady state corresponds to the basic equation of the balance sheet: total assets (assets) = sum of liabilities (sources of coverage). After application of international accounting standards for the public sector there is a change of public administration financial reporting. Pods and basic components of the financial statements are unchanged, but there are significant changes in their content and form. In a statement

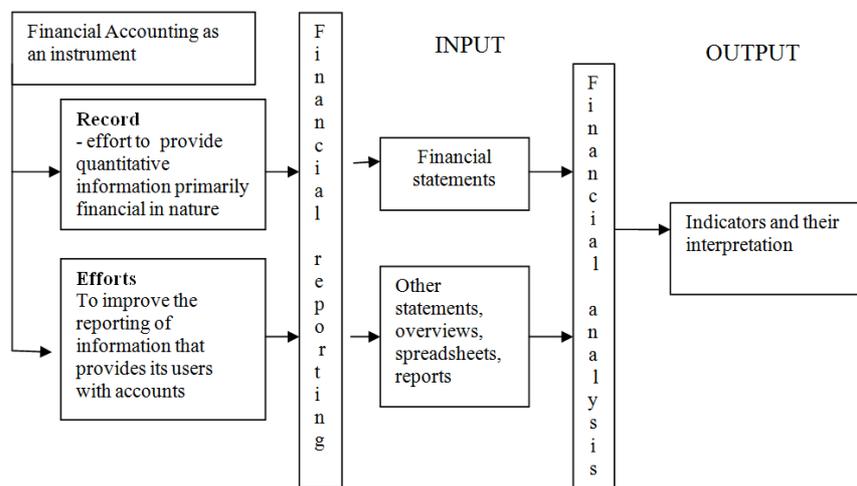
Balance sheet name arose in connection with the registration of own sources of coverage, special recognition accounting relations between the founders and their budgetary and subsidized organizations, among other entities of public administration and outside of public administration, and the need for accounting adjustments, reserves and accruing costs and revenues.

Income statement explains the formation of economic results, it means what the costs and revenues incurred economic result for the period. Directly related to the balance sheet item – economic result, which is classified to equity.

After the application of international accounting standards for the public sector there is a change in the profit and loss account. There has to be registration costs in one accounting class (it means costs incurred by the principal or business) . There was expansion of cost accounting groups that allow monitoring costs under the generic term, thus, management is better able to answer the question : " what economic resources are consumed ? " And if it can be linked to reasons of cost and place of birth, so they meet the requirements for development drafting program costs. Costs will become even government organizations essential to the development of cost management, which should be more closely the costs, they are a source of further analysis. Correct identification of the cost of performance, forms and processes can reveal weaknesses and avoid inefficient activities, as well as provides development forecasts. costs depending on the plans and select, if possible further development of the optimum variant. In the area of revenue occurred even more rapid change, because yields have started to follow in species processed in the core business.

The most important part of the profit and loss account from the perspective changes and specifics in public administration constitute a new group aimed at monitoring the costs and benefits resulting from transfers, which are not only clearing relationships between public administration, but also in contact with foreign government entities (for example business).

Statements of accounts are considered to be formalized summaries of quantitative indicators, grouped according to the purpose for which the information is disclosed and provide comprehensive, comparable and reliable information for external and internal users. The only way to ensure the quality aspect of information, linking the significance of the information for their further use. Logistical process of working with accounting information clearly defined the image.



**Fig. 4.2. Logistic process of working with accounting information.**

Source: ŠTANGOVÁ, N., MIHALIKOVÁ E., FABIAN, Š.2011

#### 4.5. Conclusion

Conceived accounts does not stop the process of working with accounting information, conversely starting. In order to a proper understanding of the facts in the financial statements, it is necessary to elaborate notes, containing precise reports, detailed tables and

descriptions, which means they could be users to better assess the impact of balancing methods for preparing financial statements. In assessing the need to focus on quality reporting profit, business entity, using accounting methods, qualitative and quantitative methods of disclosure.

Based on the new method of accounting in the public sector is necessary to extend financial analysis and also control transfers to the impacts resulting economic result entity on the grounds that transfers the application of accrual accounting are displayed not only on a cash basis, but there will also be costs (if the transfer awarded) and revenue (if the transfer is taken) and an accrual for the costs or expenses.

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