

CZU: 657.15:006(478)

DOI: <https://doi.org/10.53486/dri2022.09>

EXAMINATION OF METHODOLOGICAL ASPECTS REGARDING THE HARMONIZATION OF BUDGETARY ACCOUNTING IN THE CONTEXT OF IPSAS

RAILEAN TATIANA⁹

Abstract: *Republic of Moldova has the task of reforming the budget accounting system to IPSAS requirements. The methodological problems of budget accounting reform are studied, national and international accounting methodological aspects are compared. Finally, recommendations are proposed to harmonize the accounting methodology in the context of IPSAS, taking into account the national specifics.*

Key words: *International Public Sector Accounting Standards, budgetary sector, financial reports, budgetary accounting*

JEL CLASSIFICATION: M41, H83.

INTRODUCTION

The change of the socio-economic formation in Republic of Moldova at the borders of the centuries and the intensification of the globalization of the economy in the world at the end of the 20th century, imposed, in addition to a set of other tasks, the reform of the national accounting in the public sector. The main direction of the reform consists in improving the quality of the information presented and ensuring free access to it by users. The beginning of the implementation of the accounting reform in the public (budgetary) sector in the Republic of Moldova was highlighted since 2016, through the approval of the single Plan of Accounting Accounts for the budgetary system (OMF 216/2015) and integrated with the Economic Classification (OMF 208/2015). The respective chart of accounts was developed in accordance with the requirements of the Financial Statistics Standards (GFS 2001), which represents one of the priority activities in the reform of Public Finance Management at the international level. As a continuation of the reform of the budget accounting system, at the end of 2016 the order of the Minister of Finance No. 159 regarding the Concept and Action Plan for the development of National Accounting Standards for the Public Sector (SNCSP) was approved. The concept envisages studying the International Public Sector Accounting Standards (IPSAS) and using them as a guide for developing one's own accounting standards for the budget system. So far, with the help of European technical assistance, 22 projects of National Accounting Standards for the Public Sector have been developed out of 28 planned. Through the extent of the changes taking place in the accounting system in the budget sector, a new stage of the budget reform is manifested, the goal of which is the convergence of international and national accounting standards for the public sector. That reform allows for the alignment of the accounting principles and

⁹ Ph.D Student, email: tanea.r2018@mail.ru
ORCID: 0000-0002-2988-1484

requirements of the national budget sector with the conditions of activity in a market economy. In order to have a clearer vision regarding the challenges encountered during the development of the respective reform, the accounting regulations from IPSAS are analysed with those from The order of the Ministry of Finance no.216/2015 on the approval of the Chart of Accounts in the budgetary system and of the Methodological Rules on accounting and financial reporting in the budgetary system and from other national normative frameworks in force. Based on the results obtained, not only the conclusion but also recommendations are presented, which, in the opinion of the author, will not only simplify the convergence of IPSAS (2021) with SNCSP (OMF 159, 2016), but will also be taken into account in making decisions during reform.

RESULTS AND DISCUSSIONS

In the scientific and legal literature on accounting, both international and national, there are two expressions with analogical meaning such as "accounting for the public sector" and "accounting for the budget sector". After a thorough analysis, it was identified that the public sector includes a wider range of entities, which participate in the achieving of budget commitments, but which operate both with financial autonomy (with state capital) and without financial autonomy (financed based on the allocations approved by law).

IPSAS does not provide a clear definition of the public sector, but only a disclosure of this concept by listing the institutions related to it. Thus, in the Preface of the IPSAS Manual (2021), public sector institutions include national governments, regional governments (e.g. state, provincial, territorial), local governments (e.g. city, town) and related government entities (for example, agencies, councils, commissions and enterprises), unless otherwise specified.

According to the economic content, the composition of the "public sector" differs from that of the "budgetary sector". In the international literature (including Wikipedia), as well as in the legislation of the Republic of Moldova, the public sector includes central public authorities, territorial administrative units, state/municipal enterprises, commercial companies with full or majority public capital (Figure 1). The budgetary sector has a narrower component, including only budgetary authorities/institutions, which honor their budgetary commitments within the limits of budgetary allocations approved by law.

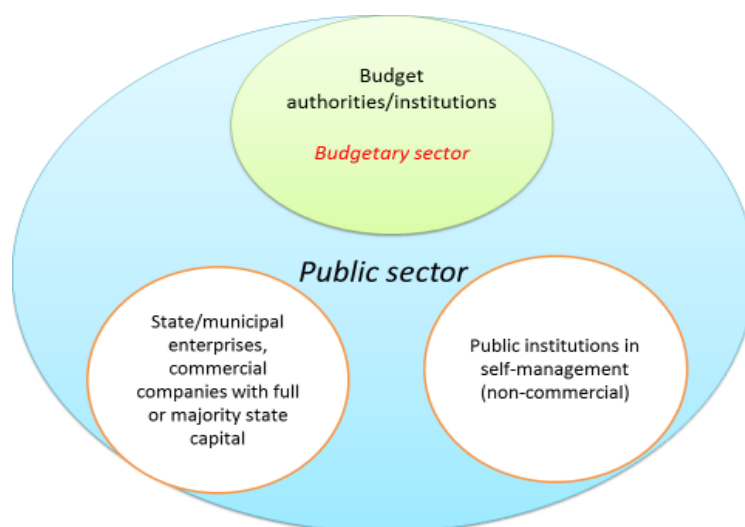


Figure 1. The composition of the public sector of the Republic of Moldova.

Source: legislative and normative framework of the Republic of Moldova

Taking into account that the legal framework of the Republic of Moldova provides for the keeping of accounting records of state enterprises, commercial companies and self-managed public institutions (which are part of the public sector) by applying the National Accounting Standards for the corporate sector, as well as the fact that the regulatory framework in budgetary and accounting regulatory force applies the notion and meaning of "budgetary sector/system" (e.g.: OMF 216, 2015) it is recommended to change the name of the national accounting standards to be developed by replacing "public sector" in "budgetary sector".

During the study of the IPSAS Manual (2021) and international practices, it was noted that in the composition of the SNCSP to be developed in accordance with OMF 159, 2016, the Conceptual Framework for accounting and financial reporting in the budget sector is missing. This is a document that includes main aspects such as:

- the requirements regarding the reflection of information in financial reports;
- principles (characteristics) for the preparation of financial reports;
- the composition, definition, recognition criteria and assessment of accounting elements;
- fundamental accounting regulations.

Additionally, it is appropriate to define and describe new accounting concepts such as service potential, exchange and non-exchange transactions, control over an asset, past event, professional judgment, is welcome because are used in the language of each accounting standard elaborated.

Thus, during the implementation of the budgetary accounting reform, it is recommended to include in the list of accounting standards to be developed the document "Conceptual framework for accounting and financial reporting in the budgetary sector". It should be noted that studying and developing the conceptual framework is an important and responsible stage in the accounting reform, which also requires a certain period of time.

Along with the study of the Conceptual Framework mentioned in the text above, the composition of accounting principles, defined as qualitative characteristics in IPSAS, was examined. According to L. Lazari, (2017), accounting principles are conceptual elements, basic rules, which ensure the faithful, honest and complete representation of the evolution of the entity through the financial statements.

Therefore, the study and selection of new principles from IPSAS, requires a thorough and effective analysis, as their appearance amplifies and complicates the accounting record and relies more on the logical thinking of the accountant. Compliance with national and international accounting principles such as *prudence*, *the substance over form*, *faithful representation* requires the application of new accounting regulations related to the depreciation of assets, the recognition of contingent assets and liabilities, the annual review of the method of calculating depreciation, the reflection of revaluation reserves and fair value. The emergence of *the substance over form* causes a change in the accountant's traditional thinking and the use of professional judgment in the recognition of assets that do not belong to the institution in legal form, but which are under its control and generate economic benefits. The principle of *prudence* urges the fact that, in the subsequent evaluation of liabilities, assets, expenses and incomes, depreciations, risks, possible losses generated by carrying out the activity in the current or previous year must be taken into account. Assets and income should not be overvalued, while liabilities and expenses should not be undervalued. IPSAS explains that through *faithful representation*, accounting information must be as complete as possible, as neutral as possible, as simple as possible and contain as few errors as possible. With the emergence of this

principle, there is more and more discussion about the most appropriate model for the valuation of accounting elements: model based on historical cost and model based on fair value.

Fair value measurement has many opponents who believe that historical cost is still the most logical basis of measurement in financial reporting. At the heart of the historical cost versus fair value debate is the trade-off between the credibility and relevance associated with the two forms of valuation. According to Kaya (2013), the accounting profession has great reservations about the credibility of fair value measurement, reservations that are caused, among other things, by the difficulty and subjectivity of estimating future cash flows. The historical cost of an asset in a completed transaction is arguably the most credible measure of fair value at the transaction date (Cortese-Danile et al., 2010).

As a practical matter, accountants should prepare an accounting document showing how they determined fair value. Even so, the result in fair values can be manipulated. Valuation of balance sheet assets at fair value presents a risk of manipulation of the result. The use of the historical cost, as a measurement base, allows the provision of verifiable and objective information in the financial statements (Feleăgă, 2010).

Given that budgetary institutions generally do not carry out activities whose primary objective is to generate profit and are not subject to taxation, we believe that keeping the cost-based model is the most appropriate record of assets. According to this model, the value of an asset is reduced not only by depreciation but also by depreciation, which brings its value closer to market value. However, there are situations when the determination of value based on fair value is required. This is not a permanent record, but periodic or in unique cases such as in the case of inflation, accounting reform and in certain cases provided by law.

Studying the notion of assets and their accounting treatment in IPSAS (2021), there is a need to explain and further use concepts such as economic potential in the recognition of assets, the way of determining the depreciation of assets and their reflection in financial reports, the way of timely selection of the amortization method (in the national framework, the depreciation calculation method is only the linear method). Also, IPSAS provides for the identification and classification of tangible fixed assets in real estate investments, which are assets (land or building, or part of a building) intended to accumulate income from leasing or capital appreciation. Another IPSAS reclassification of tangible fixed assets is their transfer to inventory accounts, in the case of their intended sale.

During the research, the structure of financial reports was also examined in accordance with OMF 216/2015 and IPSAS 1. The budgetary accounting reform of 2016 improved this comparison and established a significant convergence of the structure of financial reports with IPSAS. This is because the financial reports have been developed and implemented in accordance with the GFS Manual (2001), which is almost analogous to the structure in IPSAS 1 (IPSASB, 2021). The national framework is missing only the "Statement of changes in net assets/equity" report. This ratio is an unknown phenomenon, since the budgetary institutions of the Republic of Moldova, due to their legal status, do not form their own capital and do not distribute dividends, but are fully financed by the budget and operate based on the allocations approved in the annual law. It is recommended that the draft of the respective Report exclude the information about equity and capital distributions (as provided by IPSAS1) and contain the comparative information with the previous period for the following elements:

- the financial result of the budgetary institution,
- correcting the results of previous years,
- changes in accounting policies,

- net income recognized directly from net assets,
- the amount of funding from the budget, considering that all the expenses of the budgetary institutions are carried out based on the budgetary allocations approved in the law.

Analyzing the composition and classification of the elements of the financial reports, it was identified that the asset elements in the national balance sheet are classified depending on the financial and non-financial criteria and are not grouped in current/non-current assets (according to IPSAS1). Liability items are not classified as current/non-current liabilities. It is mentioned that, specifically for the accounting of the budget system of the Republic of Moldova, the asset elements are classified into financial and non-financial. This classification is evident in the Chart of accounts of the budgetary system, approved by Order no. 216/2015. Also, the elements of the accounting balance, both in assets and in liabilities, are arranged in a chaotic manner and do not correspond to the criterion of increase/decrease in liquidity. Considering that the classification of elements in current and non-current assets and liabilities is relevant information when reading the Financial reports, as well as that the classification according to the financial and non-financial criteria is important for the analysis of the budget execution, we consider it appropriate to take into account both ways of classifying and dividing non-financial/financial assets into current and non-current assets, and financial/non-financial liabilities into current and non-current liabilities.

If we talk about the way of preparing financial reports, then we can say that IPSAS focuses on reflecting more limited information in financial reports, but with great details in the Narrative Report. While the Moldovan regulatory framework provides for the reflection of more detailed information in the forms and strictly with the requirements set out in the Requirements for the preparation of the Narrative Report on the execution of the budgets of the authorities/budgetary institutions (OMF 164/2016). We believe that the flexibility of information reflection allowed by IPSAS complicates their analogical preparation and assumes a subjective character that can bring lapses in the presentation of useful information. We recommend maintaining the national accounting provisions regarding the strictness and need for information reflected in financial reports, which improves verifiability and comparability.

CONCLUSION

Modernization of the accounting system in the budgetary sector are present and actual at the international level, being integral parts of the financial public management. It is a way to significantly improve the publicly assumed responsibility of administrations, to facilitate the analysis and comparison of financial reports drawn up in the budgetary sector, respectively to evaluate the performance of different levels of administration.

At the same time, being also considered a tool for improving transparency and comparability, accounting harmonization also implicitly contributes to the improvement of the decision-making process.

Convergence to IPSAS accounting requirements will allow the Republic of Moldova to maintain competitiveness on the world market. In the present paper, the most significant methodological aspects of IPSAS accounting were studied in analogy with those of national budget accounting. Moreover, for each topic discussed, recommendations were given by the author for the convergence of accounting regulations, taking into account the specifics of national accounting provisions. Adoption of IPSAS requires important financial resources, starting from the training of the staff and up to the provision of the necessary infrastructure. This aspect has a significant impact especially in the case of developing countries.

As a conclusion of the study, we can state that the application of IPSAS requirements has a direct and significant impact on the way of preparing financial reports and the decisions based on them, and this once again emphasizes the importance of their application in the accounting of budgetary institutions.

REFERENCES

1. Cortese-Danile, T.M., Mautz, R.D, McCarthy, I.M. (2010), *Ethics is Imperative to Effective Fair Value Reporting: Weaving Ethics into Fair Value*, Review of Business, vol. 30, nr.2, pp. 50-58.
2. Feleagă, L., Dragomir, V.D., Feleagă, N. (2010), *National Accounting Culture and Empirical Evidence on the Application of Conservatism*, Economic Computation and Economic Cybernetics Studies and Research, vol. 44, nr. 3, pp. 43-60.
3. Government Finance Statistics Manual 2001, [online] Available at: <<https://www.imf.org/external/pubs/ft/gfs/manual/index.htm>> [Accessed 15 September 2022].
4. IPSASB 2021, *Handbook of international public sector accounting pronouncements*, IFAC, published on 22.03.2021. Available at: <<https://www.ipsasb.org/publications/2021-handbook-international-public-sector-accounting-pronouncements>>[Accessed on 25 August 2022].
5. Kaya, C.T. (2013), *Fair Value versus Historical Cost: Which is Actually More “Fair”*, Journal of Accounting and Finance, vol. 60, pp. 127-137.
6. L. Lazari 2017, *Accounting principles: evolution, content, consequences*. Magazine / Journal "ECONOMICA" no. 4 (102)
7. The Order of the Ministry of Finance no. 208/24.12.2015 on the approval of the *Budget Classification*, published on 31.12.2015 in the Official Monitor of Republic of Moldova No. 68-71 art. 208. Available at: <https://www.legis.md/cautare/getResults?doc_id=133160&lang=ro>, [Accessed on 20 August 2022].
8. The Order of the Ministry of Finance no.216/28.12.2015 on the approval of the *Chart of Accounts in the budgetary system and of the Methodological Rules on accounting and financial reporting in the budgetary system*, published on 31.12.2015 in the Official Monitor of Republic of Moldova No. 377-391 art. 1001. Available at: <https://www.legis.md/cautare/getResults?doc_id=128219&lang=ro>, [Accessed on 19 August 2022].
9. The Order of the Ministry of Finance no.159/27.12.2016 on the approval of the *Concept and the Action Plan for the elaboration of the National Accounting Standards for the Public Sector*, published on 17.02.2017 in the Official Monitor of Republic of Moldova No. 50-59 art. 202. Available at: <https://www.legis.md/cautare/getResults?doc_id=120037&lang=ro>, [Accessed on 20 August 2022].
10. The Order of the Ministry of Finance no. 164/30.12.2016 on the approval of the *Requirements for the preparation of the Narrative Report on the execution of the budgets of the authorities/budgetary institutions*, published on 17.02.2017 in the Official Monitor of Republic of Moldova No. 50-59 art. 203. Available at: <https://www.legis.md/cautare/getResults?doc_id=124985&lang=ro>, [Accessed on 20 August 2022].
11. Public sector, 2022. Available at: <https://en.wikipedia.org/wiki/Public_sector#cite_ref-1>, [Accessed on 20 August 2022].