MAKERERE UNIVERSITY BUSINESS SCHOOL
FACULTY OF COMMERCE- DEPARTMENT OF ACCOUNTING
PUBLIC SECTOR ACCOUNTING NOTES

THE FRAME WORK OF ACCONTING IN PUBLIC SECTOR

PSA is the recording, and classifying accounting information by offices including the central and local government administration, public institutions or bodies established by the act of parliament in the books, summarizing and communicating financial information to the interested parties through the production of financial statements and interpretation of the operating results portrayed in such financial statements so as to facilitate decision making. Analyzing involves the process of separating transactions according to their distinct nature and posting them under appropriate heads and sub-heads.
a) Recording involves the process of documenting the financial transactions and activities in the necessary books of accounts are cash book, ledger and vote book.
(b) Classifying has to do with the grouping of the transactions into revenue and expense descriptions and bringing them under major classes as „Revenue Head" and „Sub-heads", with their relevant code numbers of accounts.
(c)Summarizing concerns the bringing together of all the classes of accounts and preparing them into reports periodically as are statutorily or organizationally required.
(d) Communicating is about making available financial reports on all the government financial activities from the necessary accounting summaries to various interested parties. The style of communication adopted should be un-ambiguous, lucid and devoid of jargons as much as possible.
(e) Interpreting ends the process by giving explanations on what has been reported in the various financial statements and reports, as regards the overall operations and performance of the relevant government organization(s). This is to enable the necessary parties and users to take relevant decisions based on their assessments of the reports.

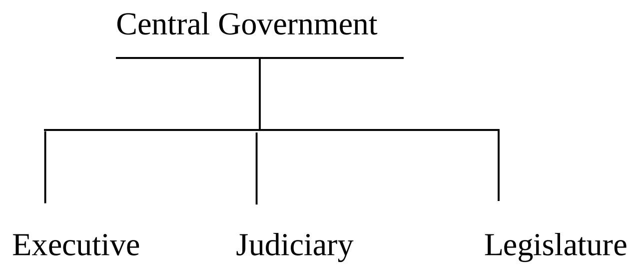
THE PUBLIC SECTOR ORGANISATIONS.

The public sector includes all those public offices or organizations which are entrusted with public resources. It plays a fundamental role in the political and economic development of the country. The public sector includes;

- Central Government
- Local government
- Autonomous and semi-autonomous bodies
- Parastatal bodies
- Universities and other public institutions
- Charitable or Non-profit making organizations.

The central government includes three arms of the government i.e.

i. Executive (cabinet)
ii. Judiciary (Judges)
iii. Legislature (Parliament)



Legislature makes the laws
The executive implements the laws
While the judiciary arbitrates.

The central government uses the cash accounting system though some accrual accounting is practiced alongside. However, accrual accounting is being adopted as a preferred accounting system.

The expenditure in the central government is according to the national budget in that each ministry, Department and Agency is given a note based on approved ministerial budgets and such a note shows how the money allocated will be spent.

The local governments include city councils, urban councils and rural councils with a variety of administrative units. (city councils eg KCCA, and city divisions eg Nakawa, Municipal councils eg Ibanda municipal council and municipal divisions, town councils and town divisions, and sub-counties)

Like the central government, most local governments especially the rural local governments have been using the cash accounting system but of recent, have started incorporating the accrual accounting system.

"Parastatal bodies are the trading entities of government which until recently, have had a choice between the accrual and the cash accounting system."
NB.

- Because of the move to integrated monetary system, there is need to harmonize the accounting basis in the public sector related organizations. Therefore, it is hoped that gradually, the accrual accounting system will be fully adopted.
- Public sector organizations provide several diversified services to the community by using resources and therefore are required to provide accountability for the utilization of such resources to relevant authorities such as parliament, councils, e.t.c.

Public sector accounting requires the following;

i. That any accounting officer should ensure that the revenue is distributed according to the provisions of the relevant act and the guidelines of the relevant regulations.
ii. That donors and governmental organizations' funds be spent solely on the objectives specified in the agreements between the donors and the organizations.
iii. Those funds should be allocated according to the priorities of government as spelt out in the national budget.

iv. That the estimated allocations should be debated and approved by the representatives of the stakeholders like MPs, councilors, etc.

Public sector accounting emphasizes all the above requirements for the purpose of efficiency, effectiveness and economy in the handling of public resources

OVERVIEW OF ACCOUNTING PROCESS IN PUBLIC ENTITIES

This involves the following stages: -

- Preparation of the budget and tabling it in parliament/council. Once this is done, it is debated upon, amended and passed. It becomes a tool for responsible officers to spend
- The budget therefore becomes an appropriation account which represents votes of different government departments. Accounting officers are expected to adhere to the appropriation account in raising revenue and in the expenditure of that revenue. This account will specify how much has been allocated/voted to each ministry, institution or district.
- The treasury makes provision to release money from the consolidated fund to different government ministries, institutions and districts. The treasury also charges the consolidated fund with the recurrent consolidated services which include the salary of the president, vice president, public debts, salary of IGG, public service commissioner, inspector general of police among others.
- Money will then be released to the accounting officers (AOs) upon application. The vote will be broken into several line items for examples several categories of expenditure, which include salaries, wages, travelling expenses, supplies etc. The accounting officer is expected to ensure that there is no over expenditure on any of the items.
- If it becomes clear that the funds are not going to be sufficient, the AO is supposed to apply to parliament for supplementary funding.
- Ministries, institutions and districts are expected to make returns to the treasury on a monthly basis in respect of what has been received and what has been spent and also to carry out reconciliation exercise on monthly basis. On annual basis, they are supposed to make returns regarding their balances. These returns should highlight what was received against the budget, what was spent against the budget and excess or deficit. All these are specified in the law.

NATURE AND OBJECTIVES OF GOVERNMENT ACCOUNTING

The objectives of Government accounting include the following:
(a) To fulfill legal requirement. The law requires that government accounts are prepared and audited annually.

(b) To perform the stewardship function. The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.

(c) To enable Government to plan well the future activities and programs of the Nation.

(d) To provide a process of controlling the use of the financial and other resources.

(e) To provide the means by which actual performance may be compared with the target set.

(f) To evaluate the economy, efficiency and effectiveness with which governance is carried out.
To provide financial information useful to determining and predicting the flows, balances and short term financial requirements of government units.

(g) To provide financial information useful monitoring performance in terms of contractual and statutory requirements.

(h)To provide the information useful in budgeting and assessing the impact of planning, accessing and allocation of resources towards the achievement of the intended objectives.

(i) To provide information useful for evaluating managerial and organization's performance etc.

PURPOSE OF PUBLIC SECTOR ACCOUNTING

The purposes of Public Sector Accounting include:

1. Demonstrating the proprietary of transactions and their conformity with the law, established rules and regulations.
2. Measuring current performance.
3. Providing useful information for the efficient control and effective management of government operations.
4. Facilitating audit exercise to be carried out.
5. Planning future operations.
6. Appraising those in the authority, in efficiency and effectiveness

USERS OF GOVERNMENT ACCOUNTING INFORMATION

There are two groups of users of Government Accounting information. These are „internal‟ and External‟ users whose peculiarities and areas of interests are briefly discussed, as follows:
Internal Users and Interest Areas:

This group of users includes: The Labour Union in the public service which will press for improved conditions of employment and security of tenure for their members. Members of the Executive Arm of Government such as the President, Ministers and Governors. Their interest areas are to ensure probity and accountability through score keeping and performance control which are achieved through accounting information. Top Management members such as Permanent Secretaries of various Ministries and General Managers of Parastatals. They are the conduit of accounting information generation and transmission and serve as liaison officers between Government, employees and the public.

External Users and Areas of Interest.

External Users include Members of the Legislature at both National, State and Local Government levels. Information in the accounts of Governments are the major media through which politicians render stewardship to their constituencies and apprise them of the endeavours of governance. The Members of the Public, to demonstrate accountability and assist the people to appreciate or otherwise the efforts of Governments. Researchers and Financial Journalists. Researchers are expected to develop new and better ideas of governance. Financial journalists cherish accounting information to advise existing and potential investors. Financial Institutions, such as the Commercial Banks, World Band

and International Monetary Fund (IMF). Accounting information assists them to evaluate the credit rating of a borrowing Nation. Governments, apart from the ones reporting. Governments collaborate on ideas of investment and research. They require accounting information on the well-being or otherwise of each other. Suppliers and Contractors. Suppliers and contractors are eager to ascertain the ability of a Government to pay for goods and services delivered. Only Accounting information can be revealing.

Therefore:-
The main users of P.S.A include,

i. Donors and investors
ii. Parliament
iii. Government departments
iv. Tax payers
v. Voters

These users of public sector accounts want the public sector accounts for various needs. The major needs are financial viability, fiscal compliance and management performance.

MAJOR NEEDS OF USERS OF P.S.A

1. FINACIAL VIABILITY. The users are interested in knowing the ability to undertake its operations in effective manner and also interested in ascertaining whether the public sector entity has enough funds to improve and sustain its services.
2. FISCAL COMPLIANCE. They are interested to the extent to which any public sector organization has complied with policies, conditions or all the procedures laid down in its authority to spend.
3. MANAGEMENT PERFORMANCE. The users need to know whether money is spent wisely or effectively. They are concerned with the value of money and therefore the main concern here is output.

DIFFERENCES BETWEEN GOVENMENT ACCOUNTING AND PRIVATE SECTOR ACCOUNTING

These may be discussed as follows:
 In Government Accounting, tangible and fixed assets as buildings and motor vehicles, are not shown in the Statement of Assets and liabilities. They are written off immediately in the year of purchase. Private Sector Accounting reflects fixed assets in the balance sheet, displaying the historical cost, accumulated depreciation and written down value of each.

 Government Accounting does not record stocks, debtors in the balance sheet (Statement of Assets and liabilities), unlike Private Sector Accounting which displays those items, and others such as "sales"", "cost of goods sold"" and "carriage outward expenses"" (in the trading and profit and loss accounts).
 Private Sector Accounting is peculiar to commercial undertakings which have the maximisation of profit as their main objective. Government Accounting focuses on the provision of adequate welfare to the people with probity, accountability, legal and wise spending in mind.
 Government Accounting adopts „cash basis" of accounting, as against „accrual basis" of Private Sector Accounting.

 Government Accounting mostly uses the budgetary approach, recording and classifying items of revenue and expenditure under various „heads‟ and „sub-heads.‟ Although Private Sector Accounting equally does budgeting and budgetary control, revenue and expenditure matters are, recorded by their natural description, such as „stationary‟ and „discount allowed.‟
 Government Accounting operates predominantly „fund accounting‟ method in collating its data and information. Private Sector Accounting uses the proprietary (or ownership) style which discloses the nature and sources of the enterprise‟s finance or capital structure, such as „ordinary share capital‟ or capital structure, such as „ordinary share capital‟ and „preference share capital.‟
 The legal basis of Government Accounting is the Nation‟s Constitution and Act of Parliament, unlike Private Sector Accounting which draws its existence and strength from Companies Acts.
Purpose of Financial Statements

Financial statements are structured representations of the financial position and economic performance of an entity. Specifically, the objectives of general purpose financial reporting in the public sector should be to generate information useful for decision-making, and demonstrate the accountability of an entity for the resources entrusted to it, by providing statistics:
(a) On the sources, allocation and uses of financial resources;

(b) On how an entity financed its activities;

(c) For the valuation of the entity’s ability to finance its activities and to settle liabilities;

(d) For the measurement of an entity’s performance in respect of the set goals.

(e) Which will reveal whether or not an entity has acted within the approved budget

THE AUTHORITY OF PUBLIC SECTOR ACCOUNTING.

The authority of PSA is derived from the following

- Constitution (1995),
- Finance Act (1997),
- Local Government Act,
- Local government financial and accounting regulations (2007),
- public finance and management act 2015,
- budget act 2001,
- National audit act 2008, and
- ministry of finance or financial public sector, accounting schedules as a statute like those establishing parastatals or public institutions etc.

These acts are mended over and again. If a law is replaced, it is repealed.

NOTE:
All public sector bodies have a common feature that is there are specific powers derived from parliament and their responsibilities are easily determined by parliament and therefore are accountable to parliament to a certain extent.

PROBLEMS/CHALLENGES FACED BY PUBLIC SECTOR ACOUNTING

- It emphasizes the application of cost accounting systems, but following these, some fixed assets are treated like any other expenditure and these loopholes may encourage misappropriation of funds and other assets.
- Too much emphasis on the budget and very little is put on monitoring of output. Public sector accounting is highly affected by the budgetary process that is the expenditure is according to the budget but when accountability is required it becomes a problem.
- Inadequate career development in form of workshops, in-service training, etc.
- Cash accounting system sometimes frustrates suppliers and ignores the uncompleted projects.
- Lack of disciplined staff. Majority of the workers are corrupt, they embezzle funds, and this leads to the taxpayers and donors lose confidence.
- Lack of fully operating accounting body which would emphasize public sector accounting regulations.
- Frequent changes in regulation. These should always be communicated to the stakeholders and this is not done.
- Unfair evaluation of management in that evaluation is concerned with output more than the input yet output depends on the inputs.
- Lack of enough qualified personnel in public sector accounting which leads to mismanagement of funds.
- Lack of computerization in the management of public units.
- Rampant mismanagement of funds resulting from political interference, limited supervision, e.t.c.
- Political interference
- Failure to interpret the legislation.

Qn: What are ways through which the government of Uganda has tried to mitigate these challenges above?

ACCOUNTABILITY IN THE PUBLIC SECTOR

Accountability is the obligation to account for responsibilities conferred. It is the obligation and the process followed by the person or authorities entrusted with public powers and resources to report to stakeholders on how the resources have been used and managed in providing services and goods. The officer in charge should indicate how he/she used powers and resources and be answerable for policies, programs, managerial and fiscal responsibilities that are conferred.

In the public sector, this means that each manager or officer is accountable to the superior for managing responsibilities for the resources provided. Having been provided with resources and a purpose or objectives to be achieved, the obligation is to give an account of how and in what time frame the resources have been used and the tasks accomplished.

Forms of accountability

Accountability can take any of the following forms.

1. Personal accountability
2. Managerial accountability
3. Political accountability
4. Multiple accountability
5.

Personal accountability

Under this form of accountability, the individual has a personal code of conduct against which she/he brings her/him self to account. Once a person has a personal code of conduct, she/he can check her/his behavior. This is why some public officers never embezzle public funds while others are dying for the opportunity to be in reach of public funds for personal use.

Rules alone are not enough where there is no personal code of conduct. Personal accountability is the foundation of all other forms of accountability. Some organizations take keen interest in identifying personal code of conduct of their officers and take them into account when delegating delicate responsibilities to them. When interviewing candidates for important positions in the organization, it is good to include questions to establish personal code of conduct.

Managerial accountability

It is the obligation of those who received delegated authority to explain and justify how they used the delegated authority and resources.

Managerial accountability requires managers to carry out their tasks according to agreed criterion and with satisfactory results.

Managerial accountability covers or include the following:-

- Financial accountability
- Effectiveness accountability
- Efficiency (productivity) accountability
- Legal accountability
- Professional accountability

Financial accountability

It is the obligation to ensure and report that money (financial resources) has been spent as agreed and according to set rules and procedures. This is possibly the best known form of accountability.

Effectiveness accountability
It is the obligation to ensure that intended outcomes or objectives have been achieved and that the desired impact has been made. Under this form of accountability, stakeholders are interested in seeing tangible results.
Efficiency accountability
Obligation to ensure that value for money has been achieved and that the input-output ratio is favorable as possible. It ensures that the resources used must be commensurate to the results achieved.
Legal accountability
It is the obligation to ensure that the organizations procedures, regulations such as Acts, have been observed in the decision making process. In the legal accountability, one should be able to ask a question such as- was rules and procedures followed when taking a given action such as interdicting a worker?
Professional accountability
This is the obligation to ensure that professional ethics are observed in rendering service and in the way we conduct ourselves. Some professional bodies and indeed some organizations have professional code of conduct which is binding to all members.
Political accountability
Is the obligation of those who have been elected to account to the electorate about the purpose for which they have been elected. The ruler must account to the ruled for the delegated authority has been given.
Multiple accountability
Is the obligation of a person or organization to account for more than one center of authority. One common application area of this is donor funded projects where chief executive officer has to account to the trustees, the donor and the host govt.

ELEMENTS IN ACCOUNTABILITY

Entrusting is a key in accountability and can be influenced by the following.

- Integrity- This is fundamental to the sound functioning of any organization, in finance, in work ethics, in time use, in selection of staff, in handling customers and in building reputation.
- The right system
- The right person
- Organizational culture
- Value systems (individual and organizational)

Modernizing accountability in the public sector.
Changes in how govt operates require un updated understanding of accountability. In an effort to advance public debate about accountability and taking into account recent changes in the way govt does business, there is a need to have an enhanced definition of accountability.

Accountability has traditionally focused on public servants working in hierarchical systems and following certain rules and prescribed processes. But in recent years, the govt has put more emphasis in getting meaningful and using alternative methods for delivering services.

Managers are now expected to have greater flexibility in how they get results and they are urged to take reasonable risks while observing principles such as fairness and good stewardship. The concept and practice of accountability must adapt to the circumstances. Rules should be few, clear, meaningful and consistently applied. Meaningful rules are those that support the principles of fairness, propriety and good stewardship of public funds. To take account of changes in the way govt operates, an enhanced definition of accountability has been proposed.

Accountability should,

1. Stress the importance of the means used as well as the results achieved
2. Point to obligation of all parties
3. Underline the need for review of manager's performance
4. Emphasize the importance of transparency in the accountability process
5. Take into account the management of results, showing accountability among partners and risk taking.

People are demanding greater accountability and the traditional notion of accountability is becoming more difficult to apply amidst direct development in public management, hence the need to modernize our understanding of what accountability means and how it operates.

SOURCES OF GOVT FUNDS.

There are various sources of funds to both central and local governments. Some are internal and others are external.

The following are the major sources.

i. Tax revenues for example both direct and indirect.
ii. Non-tax revenues for example, fees, licenses, land premium, fines penalties and surcharges.
iii. Borrowing
iv. Donations
v. Grants (conditional, unconditional and equalization fund)
vi. Appropriation in Aid.

Question: ***Look at Uganda's resource envelope and describe its composition.***

THE REVENUE CYCLE

This is the cyclic process through which the government revenue passes right away from assessing the revenue sources to accountability

1. Assessing the revenue sources
    - This done using the legal mandate given by Acts of parliament
    - Law provides for several sources
    - Responsible institutions such as URA or others are specified by law

2. Assessing the actual revenue to be collected
    - Assessment is based on revenue flow

- It is based on previous records or reasonable estimates
- Assessment procedure should be transparent and known to the tax payer
- It should follow legal framework in place

3. Actual collection of revenue

- Revenue is collected by mandated body
- Acknowledgement is prepared for collected revenue
- Collected amounts are duly recorded in books
- Uncollected revenue is recorded as arrears
- Reconciliation of assessment, collections and arrears is done

4. Appropriation of revenue collected

- This is done in line with govt policy and priority
- It takes into account of global issues
- It considers all govt sectors
- It may also consider private entities.

5. Application of revenue appropriated

- This is the actual spending. Expenditure is in two forms, ie ***recurrent*** and capital/development expenditure. ***Development*** expenditure is that one incurred on long term capital and expensive projects such as the bridges, roads, stadiums etc. This is usually financed through borrowing from World Bank and other organizations. While

  Recurrent expenditure is that one that is incurred on routine items like medical care, education, public health etc. Such expenses are continuous and are financed using the internally generated revenues. Some government expenditures are classified thus being called ***classified expenditures***. They are expenditures which are not disclosed and are spent on the security of the country for instance for buying guns.
- Legal guidelines governing spending are followed
- Procedural issues (approval, verification and authorization) are also followed
- Spending has to be according to appropriations
- All expenditures/payments are recorded.

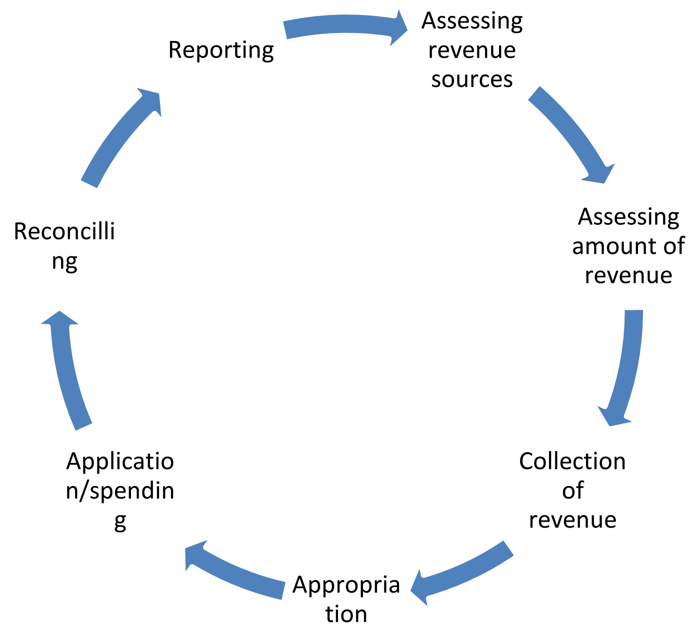
6. Reconciliation

- Planned expenditures, actual payments and outstanding are reconciled
- Reasons for any disparity are discussed
- Reports of disparity are prepared

7. Reporting.

- Report on revenue performance
- Report on expenditure performance
- Report on deficits and excesses
- State the challenges

This can be demonstrated in the cycle below;



ACCOUNTING STANDARDS.

Public sector accounting is governed by the international public sector accounting standards (IPSAS) these standards are developed by the international federal accounts (public sector committee). International Public Sector Accounting Standards Board (IPSAB) was formed in 1996 but its initial project was in 2001.

The aim of public sector committee is to come up with the standards that should be followed by the public sector in the preparation and presentation of the financial statements so as to improve the quality and comparability of the financial information by the public sector entities around the world.

Another aim is to encourage the adoption and acceptance standards and the harmonization of national requirements with the IPSAS.

Therefore the IPSAS are aimed at improving the quality of the general purpose of financial reporting in the public sector entities which in turn facilitates decision making process there by increasing transparency and accountability.

It's important to note that compliance with the IPSAS is observed in the preparation and presentation of the financial statements in the public sector so that they were prepared fairly hence a clean system.

For presentation purposes, in addition to IPSAS, some local regulation and guidelines should also be observed.

The IPSAS are applied to all public sector entities such as central governments and local governments, however, unless otherwise stated, do not apply to the government business entities and these should follow the IASs

The aim was to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by govts thereby increasing transparency and accountability.

The following are IPSAs.

IPSA	Title	Based on
IPSAS 1	Presentation of Financial Statements	IAS 1
IPSAS 2	Cash Flow Statements	IAS 7
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21
IPSAS 5	Borrowing Costs	IAS 23
IPSAS 6	Consolidated and Separate Financial Statements (superseded)	IAS 27
IPSAS 7	Investments in Associates (superseded)	IAS 28
IPSAS 8	Interests in Joint Ventures (superseded)	IAS 31
IPSAS 9	Revenue from Exchange Transactions	IAS 18
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29
IPSAS 11	Construction Contracts	IAS 11
IPSAS 12	Inventories	IAS 2
IPSAS 13	Leases	IAS 17
IPSAS 14	Events After the Reporting Date	IAS 10
IPSAS 15	Financial Instruments: Disclosure and Presentation (superseded)	
IPSAS 16	Investment Property	IAS 40
IPSAS 17	Property, Plant and Equipment	IAS 16
IPSAS 18	Segment Reporting	IAS 14
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
IPSAS 20	Related Party Disclosures	IAS 24
IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36
IPSAS 22	Disclosure of Financial Information About the General Government Sector	n/a
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	n/a
IPSAS 24	Presentation of Budget Information in Financial Statements	n/a
IPSAS 25	Employee Benefits (superseded)	IAS 19
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36
IPSAS 27	Agriculture	IAS 41
IPSAS 28	Financial Instruments: Presentation	IAS 32
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39
IPSAS 30	Financial Instruments: Disclosures	IFRS 7
IPSAS 31	Intangible Assets	IAS 38
IPSAS 32	Service Concession Arrangements: Grantor	IFRIC 12
IPSAS 33	First-time Adoption of Accrual Basis IPSASs	n/a
IPSAS 34	Separate Financial Statements	IAS 27
IPSAS 35	Consolidated Financial Statements	IFRS 10

IPSAS 36	Investments in Associates and Joint Ventures	IAS 28
IPSAS 37	Joint Arrangements	IFRS 11
IPSAS 38	Disclosure of Interests in Other Entities	IFRS 12
IPSAS 39	Employee Benefits	IAS 19
IPSAS 40	Public Sector Combinations	n/a
IPSAS 41	Financial Instruments	IFRS 9
IPSAS 42	Social Benefits	

ACCOUNTING AND REPORTING.

a) General accounting policies.

The government ministries, agencies and departments are required to maintain their books of accounts on a modified cash basis of accounting. Modified cash basis of accounting uses a combination of cash basis and accrual terms of accounting for recording the transactions.

i) Under cash basis of accounting, revenues are recognized and recorded when cash is received and expenditure is recorded when cash is paid. Consequently, the revenues not received at the end of a financial year are not treated as arrears of revenue in the following financial year. Likewise, the outstanding bills at the end of a financial year are not taken into account. In addition, the fixed assets purchased during the year are treated as revenue expenditure and written off in the year of purchase.

ii) Accrual basis accounting. In contrast to cash accounting, the accrual basis of accounting recognizes revenues and costs accrued. Revenue and or costs incurred and such revenues and costs are recorded in the financial statements in the periods to which they relate. These assets are depreciated over their useful life, applying depreciation rates in accordance with GAAP.

iii) Modified cash basis. Under this basis, revenue is recognized when received but expenditure is recognized when incurred. The government therefore doesn’t recognize revenue arrears but recognizes expenditure when incurred. Under modified accrual basis of accounting, fixed assets are expensed in the year of acquisition; the government therefore doesn’t charge depreciation costs.

b) Specific accounting policies.

i) Classification on transactions. All government transactions are recorded in the books of accounts applying the government of Uganda chart of accounts as prescribed by the accountant general.
ii) Currency. The government of Uganda accounts shall be kept in Uganda shillings. However, when there is need to process financial transactions denominated in foreign currency, a transaction in Uganda currency is made using an exchange rate provided by the B.O.F on the date of the transaction.
iii) Financial year. Financial year of government of Uganda runs from 1st July to 30th June.
iv) Employee costs. These are recorded when payment is effected. However, pension or liabilities are accrued in the financial statements at the end of the financial year.
v) Tax revenue. This shall be recorded only when the tax revenue or returns have been received from URA.

vi) Revenue expenditure. Expenditures other than employee costs shall be brought to account or recognized when incurred and only recognized in the period to which they relate.

vii) Capital expenditure/fixed assets. Acquisition of assets shall be expended and reflected in the year and expenditure account and depreciated 100% in the year of acquisition. They are recorded in the fixed assets register (according to the treasury form 8 a).

viii) Revenue earned from operations. This is recognized only when payment has been recorded or collected by URA on behalf of the ministry or agency.

ix) Loan receipts and payments. These are recorded in the statement of financial position (balance sheet) of the government of Uganda until they are repaid.

x) A statement of performance providing at class of outputs provided during the year signed by the accounting officer that;

- Compares the performance with the forecast of the performance contained in the estimates laid before parliament, and
- Gives particulars of the extent to which the performance criteria specified in that estimated in relation to the provision of those outputs was satisfied.

ACCOUNTING TECHNIQUES IN GOVERNMENT ENTITIES.

The major accounting techniques in government entities are

1. CASH ACCOUNTING:

i. This is accounting systems which recognizes only the cash inflows and outflows
ii. According to this system, revenue in recorded only when cash or cash equivalent is received (revenue or paid out expenditure)
iii. It is only the cash transactions that are summarized in the cash book.
iv. The system does not disclose the receivables such as debtors and payables such as creditors or other liabilities.
v. the only item disclosed in the books in the cash balance

This system has limited disclosures in the financial statements and the popularity OF cash accounting in the public sector is because government budgets and appropriations have been made traditionally cash based.

Merits of cash accounting

- ✓ it is easy to understand (simplicity)
- ✓ it is easy to produce cash based reports
- ✓ Cash based reports are more likely to be timely.
- ✓ Compliance can be demonstrated.
- ✓ By monitoring of receipts and payments, cash budget is facilitated.

Limitations of cash accounting

- ✓ it does not provide information on assets that have been purchased such as motor vehicles
- ✓ it does not provide information on liabilities such as accrued liabilities
- ✓ there is no information on accumulated borrowing

- ✓ it is difficult to match cash payments or costs with the revenues generated as a result of such payments.
- ✓ Keeping with in cash limits doesn't mean that the affairs of the firm have been conducted in most efficient and effective way. This does not meet the requirements for either budgetary controls or public accountability.

2. ACCRUAL ACCOUNTING

This a system of accounting which recognizes revenues and costs or expenses as they are earned and incurred respectively but not when money is paid out or received.
The system is based on the accrual concept of accounting which requires that revenues and expenditure be recognized as when they are earned and received respectively irrespective of whether there is or there is no movement of cash
Compared to cash accounting provides much more information and it's because of this that it has been adopted by many reporting units in the public sector especially local government units and central govt.
Accrual accounting therefore shows assets, amount owned to local governments, stores, fixed assets, liabilities (amount owed by the local government), fund (total worth of the local governments) etc.

Merits of accrual accounting technique

- ✓ It recognizes all assets and liabilities and most importantly, it identifies commitments to expenditure.
- ✓ It is superior to cash accounting because it results into accounting measurement based on the substance of transactions and events rather than merely on cash received and disbursed and thus enhances their relevance, timeliness, completeness and comparability.
- ✓ By introducing debtors and creditors, periodic financial statements and annual accounts become more useful because they can indicate the financial position of the firm.
- ✓ The information produced for managers is more complete and useful to them in the management of their activities.
- ✓ It is essential for performance accounting and for unit cost control. It enhances the measurement of performance of managers and govt departments.
- ✓ Enables non-cash cost to be included in financial statements e.g provision for depreciation, bad debts, gains and losses.
- ✓ Economic goods and services consumed can be appropriately measured.

Demerits of accrual accounting technique

- ✓ It introduces more subjectivity in the accounts it does not put clearly how to quantify the accrued items.
- ✓ It is subjected to manipulation and window dressing.
- ✓ It is complicated to use.

3. **COMMITMENT ACCOUNTING /Encumbrance Accounting or Invoice Matching**

This is less widely adopted in practice than either cash or accrual accounting system. Under commitment accounting, transactions are recognized when an organization is committed to them. This means that the transaction is not recognized when cash is paid or received or when an invoice is received or issued but at earlier point when orders are issued or received.

This system is used in conjunction with cash basis of accounting or accrual basis of accounting. It is not applied to salaries and wages but it is an important control for the vote / budget holders.

Entries to make with commitment accounting.

i. On issuing the order for supplies,

Dr Supplies
Cr order issued to supplier

ii. On delivery of supplies,

Dr Order issued
Cr supplier

iii. On payment

DR supplier
Cr cash/bank

If more or less suppliers are delivered, an adjusting entry will be made.

a) More suppliers,

Dr Orders issued	xx
Cr suppliers with difference	xx
Cr supplier	xx
	Xx

b) less supplies

Dr Orders issued	xx
Cr supplies	xx
Cr supplier	xx
	Xx

The primary function of commitment accounting is budgetary control.

- Vote controllers need to keep track of commitments more than invoices if they are to know the status of their budget.
- Note that commitment accounting is helpful in controlling expenses; it may not be used in tracking revenues. One does not recognize revenue when the orders are received. If it is done (recognizing revenue), it would be misleading.
- A more accurate practice is to recognize revenue when invoices are sent out.
- Commitment accounting is used for budgetary control but it is excluded from the final accounts. The entry to pass to decommit orders for which invoices have been received at the end of the year is as follows;

Dr Orders issued	xx
Cr expense I	xx
Cr expense II	xx
	Xx

Under this system, the organization is recognizing an issue of an order as a commitment to incur expenditure and the accounts continuously recorded commitment.

The primary function of commitment accounting is budgetary control as seen earlier but the idea is that there is little value to manage a set of monthly accounts which record only invoices received or paid.

In order for managers to be in control of budgets, they need to know how much of that budget have been committed in terms of the orders issued.

By receiving accounts of invoices received or paid, they could easily over commit their budget. However since more managers would know that the accounts did not include any orders issued against invoices that have not been received and would therefore keep their own record of these so that they do not over commit their budget. The response to this is that information is so relevant to a manager when it is included in the accounts.

Commitment accounting concentrates on orders issued because it forms the major primary function of recording based on orders issued.

Orders issued which relate to revenues could not be accounted for until invoices have been sent out.

The problem with budgetary control, it doesn't affect revenues the same way as expenditures.

Although the case for commitment accounting in improving the budgetary control is a good one, there is a real problem involved in the process of adopting it I the final accounts. This is simply because that the accounts we would record an expense as an item which is only supported by the issue of an order.
There is generally no legal liability incurred and the order would simply be cancelled.

It is difficult to accept that an account incurred in an accounting period is actually the order that was issued or committed to. This kind of problem which has been discussed earlier, under accrual accounting becomes more important and potentially more damaging under commitment accounting.

ILLUSTRATION.

a) The Sub county chief of Butambala sub-county made the following transactions for the month of August 2021

1/8/2021. Ordered for 1000 desks at 80,000 UGX @ under LGDP, from Masaka Quality Furniture workshop.

20/8/2021. Desks were supplied as agreed

30/8/2021. Payment was effected in cash

***Required*:**

Using commitment accounting technique, show entries in the general journal and general ledger of Butambala sub- county.

a) BUTAMBALA SUB COUNTY JOURNALS AND LEDGERS

The total amount is 1000 desks *80,000 Shs = 80,000,000 Ugx

		Dr	**Cr**
1/8/2021	1000 Desks @80,000	80 M	
	Order for desks		80M
20/8/2021	Order for desks	80 M	
	Masaka QLTY W.S		80 M
30/8/2021	Masaka QLTY W.s	80 M	
	Bank		80 M

Ledgers

Furniture a/c

1/8/2011 Order FF 80M	**Bal c/d 80 M**
Bal b/f 80 M	

MASAK QLTY W.S a/c

30/8/2011 Bank 80 M	**20/8/11 Order FF 80 M**

Order for furniture a/c

20/8/2011 Mask Qlty W.s 80M	**1/8/201 Furniture 80M**

Bank a/c

	30/8/11 Msk QW 80M

Qn; using the same illustration above, show the accounts if :-

a) Desks were supplied at 100,000@

b) Desks were supplied at 70,000@

4. Modified Cash accounting

- Hybrid method that combines features of cash and accrual basis.
- Modifications to the cash basis accounting include capitalization of assets and the accrual of income taxes.
- A SOFP would include NCAs, accumulated depreciation and the liability for income taxes.
- A SFP would include depreciation expense and income tax expense

- Revenue is recognized when received, but expenditure are recognized when incurred.
- So no revenue arrears recognized by expenditure arrears

5. **Modified Accrual Accounting**

- Recognizes an economic transaction or event as revenue, when the revenues are both measurable and available to liquidate liabilities of the current period.
- Available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period.
- Expenditures are recognized when an event or transaction is expected to draw on current spendable resources.
- No depreciation costs recognized

6. **Appropriation Accounting**

Appropriation = Authorization by act of parliament to permit government agencies to incur obligations and to pay for them from the treasury/consolidated fund.

- Appropriation does not mean actual setting aside of cash but represents the prescribed limit on spending within a specified period.
- Types of appropriations; annual, multi-year, contibuing, current, expired, definite, indefinite, elapsed.
- Types of appropriation acts; regular, supplemental
- Appropriation account= Government agency account that is credited when appropriation for it is authorized in a budget.
- It is reduced by expenditure during the period
- When the budget is adopted;

Dr. Estimated revenue a/c (estimated revenue should equal to the budgeted expenditure)
Cr. Appropriations A/c
Dr. or Cr. Fund balance for the difference.

- Fund; a sum of money or other resources usually segregated to be expended or used for specified purposes.
- Funds differ from appropriations in that they are usually permanent in nature and do not expire unless revoked by parliament

7. **Budgetary Accounting**

- This refers to the preparation of operational accounts in format of budgets. It is also known as Appropriate Accounting.
- It consists of tracking and registering operations concerning appropriations and their uses.
- It covers;
  - ✓ Appropriations,
  - ✓ Their apportionment according to the budget or on time basis
  - ✓ Any increase or decrease in the appropriations
  - ✓ Commitments/obligations
  - ✓ Expenditures at the verification or delivery stage and
  - ✓ Payments.

- The system involves keeping registers for transactions at each stage of the expenditure cycle or at least at the obligation and payment stage.
- Adequate recording of appropriations, revisions in appropriations, transfers between appropriations, apportionments, etc is a prerequisite for good management.

8. **Fund Accounting .**

The fund theory of accounting was developed by VAITTER in 1947 for business proposal. He proposed that the reporting unit should be defined as a fund and that the organization should be seen as series of funds.

A fund can be defined as a fiscal and accounting entity with a self-balancing set of accounts, recording cash and all other financial resources together with all related liabilities and equities, balances and changes there in which are segregated for the purpose of carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions and limitations.
Therefore:

- ✓ Fund accounting theories refer to the methods of accounting which reports in terms funds rather than the organizations.
- ✓ In this case, funds accountings are created for each area of the activity and according to this theory.
- ✓ Each reporting units should be defined as a fund or a series of funds. Its from this theory that the fund accounting statement or technique is the right.
- ✓ The fund accounting system indicates the extent to which different funds are utilized and the way individual fund accounting are consolidated in the final accounting.
  For accounting purposes each fund prepares a separate set of accountings. The various fund accountings are consolidated into final accounting of the reporting unit.
- ✓ Fund accountability (fund accounting) in most cases reflected in local government accounting and the adopting accounting depends on the extent to which local authority can develop separate fund accounting.

<u>TYPES OF FUNDS.</u>

a) Consolidated fund:
This is the main fund operated by the Government, all Government revenues must be put into this fund and money can not be withdrawn from this fund with out the approval by parliament. It's important to note that there are government expenditures which do not require annual approval of parliament because they may have been approved the previous years- and such expenditures are payment of pensions, subscription to the international bodies like UN.

b) **Petroleum fund**
PFMA 2015 Put into place Establishment of the Petroleum Fund. It states that the petroleum revenues, which accrue to Government, shall be paid into the Petroleum Fund. and The Minister shall be responsible for the overall management of the Petroleum Fund and shall oversee the transfer into and the disbursements from the Petroleum Fund.

c. **Special funds.**

These are funds which the Government receives in the capacity of trust for example NSSF. Trust funds is an independent entity which may own some property and other aspects like investments, withdrawals from this fund are made according to relevant provisions.
A trust fund is known as a fiduciary fund.

d) Revolving fund:

These are funds set up with the aim of providing financial resources for achieving some specified objectives.
They are also set up with the approval of parliament. Some Government enterprises may be set up using the revolving funds. The initial appreciations or apportionment into these funds are made out of the consolidate funds. The receipts generated from such funds may be used by respective enterprise or they may be paid back to consolidated funds. Eg Entandikwa scheme. PDM

e) Capital project funds:

These are funds established with the purpose of providing resources for the completion of some specified capital projects like road construction, bridge construction, and construction of health centers. Each major project should have a separate project fund created for it. Eg NRF

f) Debt service fund:

These are funds created to cater for the payment of interest and principal on a long term general obligation (debt) other than payable from some Government enterprises.

g) General funds.

these are funds established for the propose of providing resources to the devoted to the financing of general services with the government funders to the citizens that is such funds may be for security, health and sanitation purposes.

h) Specialized service fund.

These are funds established to cater for a specific activities or purposes which include; internal service fund, enterprise fund and expenditure trust fund.

i) Internal service fund.
These are funds established by Governments as a means of providing services to other funds of departments of the same unit or other Government units.

j) Entrepreneur fund.
These are established to provide services that enhance the business enterprise operations or developments.

Accountability to parliament takes a variety of forms depending on the nature of the organization that is the heads of the central government departments are directly accountable to parliament through these line ministries while the local authorities or councils are particularly accountable to parliament but largely answerable to local electorates like any other accountability.

The accountability requires the public officers to account for the resources in their control according to stewardship concept.
"Stewardship refers to the holding of someone else's assets by steward according to the agreed terms."

The responsibilities of such steward are to ensure that such assets are not misappropriated but rather got to the intended use. Public sector accounting is concerned with financial accountability.