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Governmental Accounting (I)

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Chapter One
Conceptual framework for the Government
Accounting system

Government Accounting Definition

- **Government Accounting:** is a set of rules and principles issued by a central authority to regulate and record the movement of internal and external money of public service units centrally funded and control of that money and provide monthly and annual statements.

By the concept of the above definition we can identify the following points:

1. The Government Accounting set of rules and principles set out by law or include a particular system or issued by the central authority.
2. specializes rules and principles above organizing and recording money and related movement.
3. limiting the process of organization and registration to units which is funded centrally and became a part of the general budget.

4. This section of accounting takes control on the process of movement funds to those units which are operating government accounting, and that control or monitor might be prior, external, internal or later.

5. the work of accounting process here ending by the monthly disclosures which is mean by trial balance and annual disclosures which is represent by the final accounts (final reports).

The Objectives of the Government Accounting

Government Accounting aims to achieve a number of objectives including:

1. Financial activities and it's relating in government organization (units) should be stabled in a group of accounting books lead to giving unified results.
2. control of public money in the collection and payment as specified according to law and to detect and prevent manipulation of those funds.
3. provide data and information that will help monitoring the implementation of the budget by comparing flows and uses of public funds and identify deviations and make decisions at the right time.

4. give a clear picture of the financial position at the end of the financial year and demonstrate of the amount of the deficit (shortage) accumulated or surplus (excess or extra) to the government.
5. provide the necessary data for financial planner to draw (put) a future financial policy, including the preparation of the general budget of the next financial year.
6. help economic entities in analyzing data for the redistribution of income for different categories of society.

The Importance of Government Accounting

1. provide the necessary financial data to legislative authority (parliament) by the tables of expenses and revenues represented a summary of outcome measurement in addition to the statement of financial position which is needed for the purpose of monitoring the activities of the executive authorities.
2. Provide financial data to the executive authorities that is in charge of implementing the law of budget by monitoring and controlling employers and making decision in time to modify deviations.

3. the figures of government accounting (actual and planning) give image for investors to direct their investments after finding out the financial position of the state and their future depended and implemented plan.

4. government data provide useful information for the analysis of economists in government activity and it's size compared with the private activity in addition to the possibility of knowledge of the contribution of the various sectors in the composition of capital at the national level.

5. serve financial accounting data which is provided by the government accounting system the researchers in the promotion of financial, accounting and economic studies in support of research in this area enables the real figures of the development of society.

Government Accounting Characteristics

1. government accounting systems requires to be compatible with constitutional requirements, laws and regulations in the environment in which it operates.
2. government accounting system must be consistent in terms of the group of accounting books with the distributions of the general budget.
3. The government accounting system should facilitate for the process of control of financial activities, whether internally or externally.

4. must provide clear information on the implementation compared to the planned and illustrate the amount of deficit (shortage) or surplus for that year.

5. the government accounting system data must show the economic and financial implications to implement the government projects in different sectors.

Legislation and Government Accounting

Since the accounting work in government units which are already created or issued under special legislation, the work of accounting must be under legal rules or specific central instructions in addition to that all units of the state are considered to be branches of one institution and that can be called (State organization), it which requires that the work should be unified of the purposes of determining the implementation and consolidated results at the end of the period of this institution.

The legislation governing the government accounting system can be in the following areas:

1. Consolidation of financial and accounting vocabulary.
2. Unify the types of accounts
3. Accounting records unit
4. Documents models unit
5. Financial powers (authority)

Government Accounting and Financial Accounting

There are **similarities** between governmental accounting and financial accounting:

1. full registration of the financial actions that arise in the accounting unit according to the style of double-entry.
2. share in the control of financial transactions before and after the process of exchange.
3. Each of governmental and financial accounting based on a set of accounting principles and assumptions, such as historical cost, objectivity, consistency, and the unit of measurement, ... etc.

4. accounting system in each of them depends on the group of accounting books in addition to documentary Group.
5. They are similar in issuing periodic statements of monthly trial balance.
6. lead accounting work in each of them to issue financial statements at the end of the accounting period.

There are many points of **disagreement (differences)** between government accounting and financial accounting:

1. Controls legislation in the government accounting system and accounting work in this area according to specific rules and provisions, while commercial accounting legislation only affected by certain rules.
2. Government Accounting depends on the money allocated theory while financial accounting is working according to personal moral theory or the theory of project owners.
3. The main objective of government accounting provisions to control the public money while the Financial Accounting aims primarily to determine the profit and loss of the company.

4. Government Accounting depends on the accounts and coding contained in the divisions of the general budget, while financial accounting does not depend on it.

5. Government Accounting apply cash basis in the measurement of the result at the end of the financial period, while financial accounting rely on an accrual basis.

6. lack of distinction between revenue expenditure and capital expenditure while we find this distinction in business accounting is essential.

7. Because of the lack of profit and loss in government accounting, the base caution is not be used in government accounting organization, when the commercial accounting relies mainly on that base.

Chapter Two
**Theories that define the expenditure
ability in government units**

There are four theories that define the expenditure ability in government units:

First: The property Theory

1. This theory is one of the oldest theories started with the beginning of individual companies.
2. This theory looks at the project from point of view of the owner, and does not differentiate between a personal project and personal project owners.
3. Focuses on the project owner more than a focus on the project itself, which means that the project's assets belong to its owner and liabilities are obligations.
4. The balance sheet equation according to the concept of this theory: **Net worth (equity) = total assets - total liabilities**
5. The main objective is to increase revenue and reduce expenses to increase profit.

2. Entity Theory

1. This theory appearance after appearing of large projects and the separation of ownership from management.
2. This theory is most widely accepted in thought and practice of accounting.
3. The capital of the project or any other funding source it becomes part of the liabilities as well as other obligations, and the balance sheet equation:

Assets = liabilities (capital + other obligations).

4. The objective is to produce income for investors and creditors as determined by the income statement.

3. Unity resources theory (self-financing):

1. According to this theory, the ability of expenditure in the project depends on the received revenues.
2. Project gets the resources from its own activities.
3. If the revenue increased the activity of the unit will increase.
4. The balance sheet equation is:

Self achieved resources = obligations

4. Allocated money theory

Can not be applied earlier theories on the accounting unit in light of the government's accounting system due to lack of capital and even if found, it will be carried out after a certain period and become then estimated equal to zero, as well as the lack of these units on a self revenues and even if achieved in some of the units may not be enough to cover the activity. So the money allocated theory appeared: (determine spending power of the accounting unit in quantity and quality, placed at their disposal and in a certain period of time).

The money allocated theory focused on three main elements:

- 1. The quantitative aspect:** the amount of money that determines the unit to do a particular activity.
- 2. Qualitative aspect:** determine the type of activity that is required to do by the allocated amount of money.
- 3. Time aspect :** a specific amount to spend for the activity of schedule time period.

The balance sheet equation:

Assets (allocated resources accounting unit) = Liabilities (restrictions on the use of its resources to the unit).

The general budget and the money allocated theory

Why general budget is the only instrument for the implementation of the money allocated theory?, there for it can be noted that there is a link between the budget and the elements of the money allocated theory as follows:

1.Quantitative aspect: the general budget offering allocations approved of units in accordance with the administrative division under which the allocations are distributed according to the administrative structure of the state ministries and departments so that there is a certain amount of money spending power for each unit which derives its ability to exercise its activities.

2. Qualitative aspect: the general budget distributes the approved allocations for each unit according to economic activities where allocates the total account for each type of similar expenses and follows the economic division and qualitative division and which are estimated spending power for certain types selected under the total account activity, and here the second component of the theory is achieved.

3. Time aspect: that the approved allocations for each unit and the specific spending types by divisions contained in the budget and has to be implemented during a certain period, which is usually a general budget, and it is the financial year period.

Chapter Three

The General Budget of the State

The General Budget of the State

There are two definitions of the state general budget:
Legal definition and scientific definition

1. The Legal definition:

Tables include estimated revenues and expenditures for the fiscal year determined in the budget law.

From this definition, the general budget includes:

Revenue Tables: includes the expected revenues to be collected during the financial year.

Expenditure tables: includes the amounts allocated to government units, as well as aspects of its spending.

Unified General Budget Law No. 107 of 1985

Definition of the budget:

1. budget of the centrally funded government sector is an allocated and planning budget.
2. Includes all resources expected to be collected from sources of funding by government units.

2. Scientific definition:

An annual process based on planning, coordination and control of the use of resources to achieve the required purposes efficiently.

With different definitions we conclude that:

The General Budget is an annual plan of economic, financial, political, represented by a set of objectives and programs to be implemented by the various units of the state during a certain period of time (usually a year) expressed as estimates of financial costs with an indication of their sources of funding estimates.

Types of the State's General Budget

There are two types of budget:

1. The current budget: Includes current activity practiced by government which meets the current resources (usual) to finance that activity.

2. The investment budget: includes all activities of investment character include investment for new projects or expansion of existing projects and are funded through the budget of self-financing and credit facilities, local and foreign loans in addition to the surplus of current activity.

The Objectives of the General Budget

- 1. Planning objectives:** as a result of the intervention of the modern state in various economic activities and the desire of governments to find a true balance of the national economy, is seen to the general budget as a planning tool.
- 2. Supervisory objectives:** control linked to a particular goal and be responsible for achieving that goal. That can determine the control target of the general budget as an instrument of a central control on the public money.
- 3. Behavioral objectives:** budget aims to influence the behavior and attitudes of employees of the state government system and focuses on the role of the budget in measuring the performance of work for individuals so that help guide the development and regulation of government administration.

Rules or Principles of the Preparation of the State General Budget

1. The principle of annual budget
2. The principle of the inclusion of the budget
3. The principle of unity of the budget
4. The principle of publication and publicity budget
5. principle of balance the budget

Distributions of the General Budget

It means distributing the general budget and classifying according to types of expenditure and revenue and arrange them in categories and codes and give each of them serial numbers in which it can be allocating a system to the general budget of the state.

The most important distributions adopted by the states for presenting expenditure and revenue in the general budget:

1. Administrative distribution
2. Economic distribution
3. Qualitative distribution
4. Functional distribution
5. Regional distribution(geographical)
6. Distribution by programs

Distributions of the state general budget in Iraq

1. Administrative Distribution
2. Economic Distribution
3. Qualitative Distribution
4. Functional Distribution

It can be noted that this tabs or Accounting Manual of the budget includes **two types of accounts**:

1. Budget expenditure accounts.
2. Budget revenues accounts.

First: The budget expenditure accounts

The distribution of expenditure of the budget contains the following:

1. Administrative Distribution:

The ministry = symbolized by the Gate(05)

General directorate = symbolized by the Section (0501)

Branches = symbolized by the Branch (050103)

For example: the Ministry of Higher Education and Scientific Research, the presidency of Sulaimani Polytechnic University, the College of Administration.

2. Economic Distribution:

Under this tab the expenditures of each administration (unit), distributed to (9) total accounts and named each account by (chapter).

The chapter represents a comfortable types of allocated expenditures.

and coding chapters starting with number (31) and ending by (39).

Chapter 1 (31) members of staff expenses

Chapter 2 (32) service necessity

Chapter 3 (33) supplies (commodity) necessity

Chapter 4 (34) fixed assets maintenance

Chapter 5 (35) Capital expenditures

Chapter 6 (36) translating expenditures

Chapter 7 (37) obligations, aiding and foreign investment

Chapter 8 (38) special programs

Chapter 9 (39) pensions and retirement bonuses

3. Qualitative Distribution:

Under this distribution each chapter was distributed to a number of sub-accounts called by (Items).

(item) represents kind of expenses that include in nature within the concept of chapter and symbolizes the (item) as follows:

Item 1 (3401)

Item 2 (3402)

Item 16 (3416)

And all the (items) will be analyzed in to sub-accounts (sorts).

and (sorts) represents the type of a particular activity within (item) activity for the purposes of control and provide better data for monitoring. **For example 310101**

4. Functional Distribution:

Under this type, the distribution of public expenditure is by main activities of the state and it has been distributed in to (9) functions as follows:

- (01) public authorities and public administrations
- (02) the national defense and national security
- (03) Education and Scientific Research
- (04) Media and cultural services
- (05) social services
- (06) Health Services
- (07) Economic and financial services
- (08) Foreign relations
- (09) Unrated expenses

Second: The budget revenues accounts

Public budget classification system has included an economically and qualitatively revenue distribution, but administratively and functionally in the distribution of revenues are missing in the distributions of the budget and the budget includes standardized tables of revenues classified by all the resources that are being collected by the budget-related units.

1. Economic distribution of revenues:

Revenues were divided into 9 main groups on the basis of the quality of the source of revenue and named each of these groups by (number). Number represents the resources of a major source of revenue, as follows:

Number 1 (41) Taxes on income and wealth

Number 2 (42) commodity (supplies) taxes

Number 3 (43) Other taxes and fees

Number 4 (44) revenue budget from the socialist sector and oil resources

Number 5 (45) capitalist revenue

Number 6 (46) rent of state property

Number 7 (47) translating revenues

Number 8 (48) units services for others

Number 9 (49) Unrated revenue

2. Qualitative distribution of revenues:

Analyzing each source of revenue within any number of economic distribution into a number of sub-accounts named by (Item), which represents a sub-source of revenue within the concept of number as following:

Item 1 of the Fifth number	4501
Item 2 of the Fifth number	4502
Item 3 of the Fifth number	4503

And all the material analyses into a number of sub-accounts which are (sorts) is determined at each of them the direct source of revenue for the purposes of accounting organization and provide monitoring requirements and financial planning.

The Cycle of the State General Budget

This session represents the following stages:

1. Preparation stage
2. Rely stage (ratification)
3. Implementation stage
4. Control over the implementation stage

There are four stages (steps) in the preparation of the state budget:

1. Preparation Stage:

Is the most important step and include:

- Instructions of the budget that issued from the Ministry of Finance.
- Ministries is provide estimates in accordance with this instructions.
- Collects estimates in the Ministry of finance (department of budget) and draft budget preparation and sent to the Council of Ministers.
- Discussion the project in the Council of Ministers and sent to the legislative authority.

2. Rely stage (ratification):

After the budget bill submitted to the legislature to discuss the project of all economic, social and political aspects and make adjustments that became necessary and then be ratified on the project and become a project (Law) named by the law of the public budget for the year.

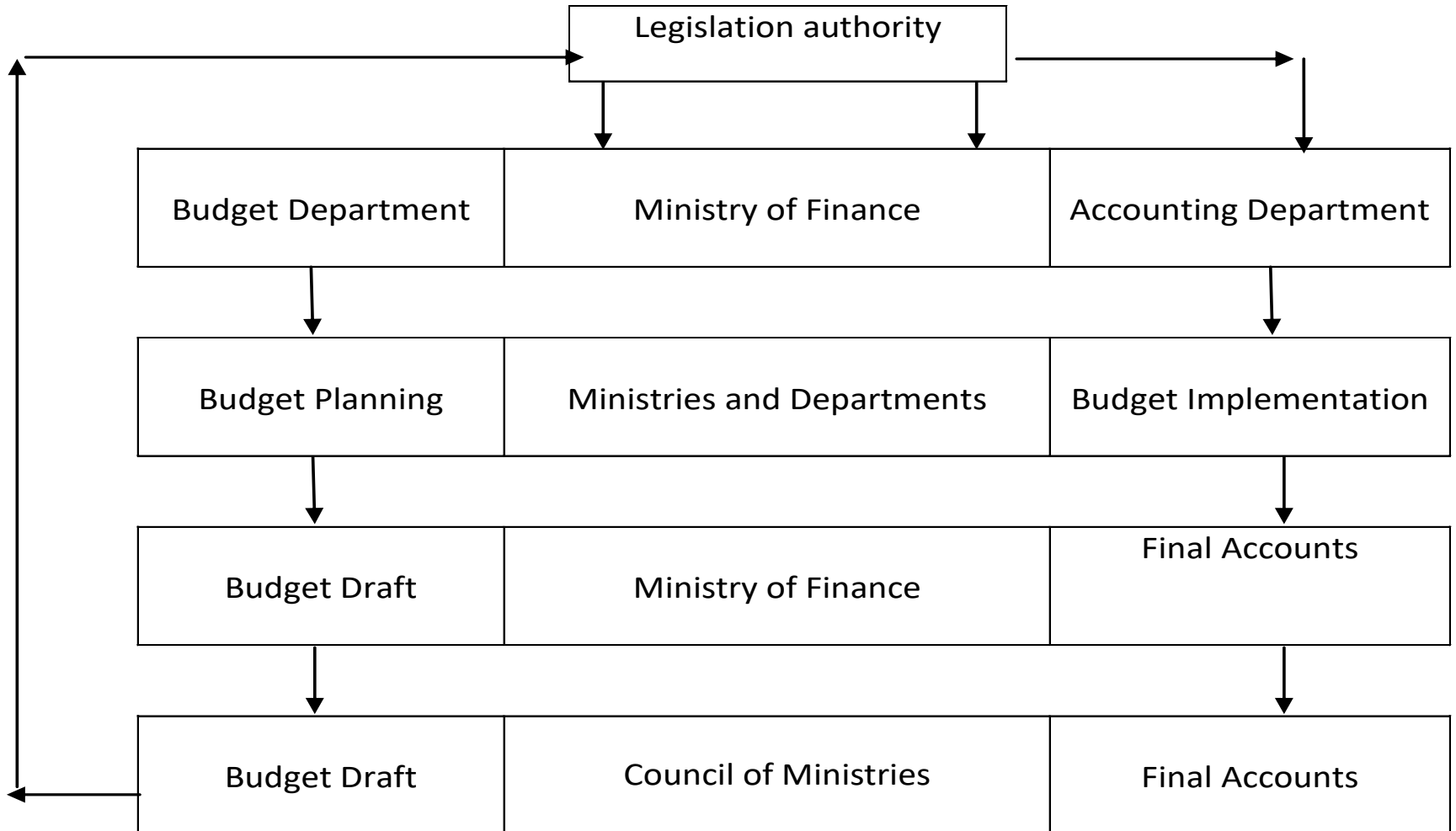
3. The implementation stage:

After the ratification of the budget law by the legislature, the Ministry of Finance will inform the ministries and government departments with their specific budget with ordering (the Implementing Regulations of the budget) includes financial authorities to spend expenditure and achieve collection of income and the budget law is considered to be implemented from (1/1 / of the year).

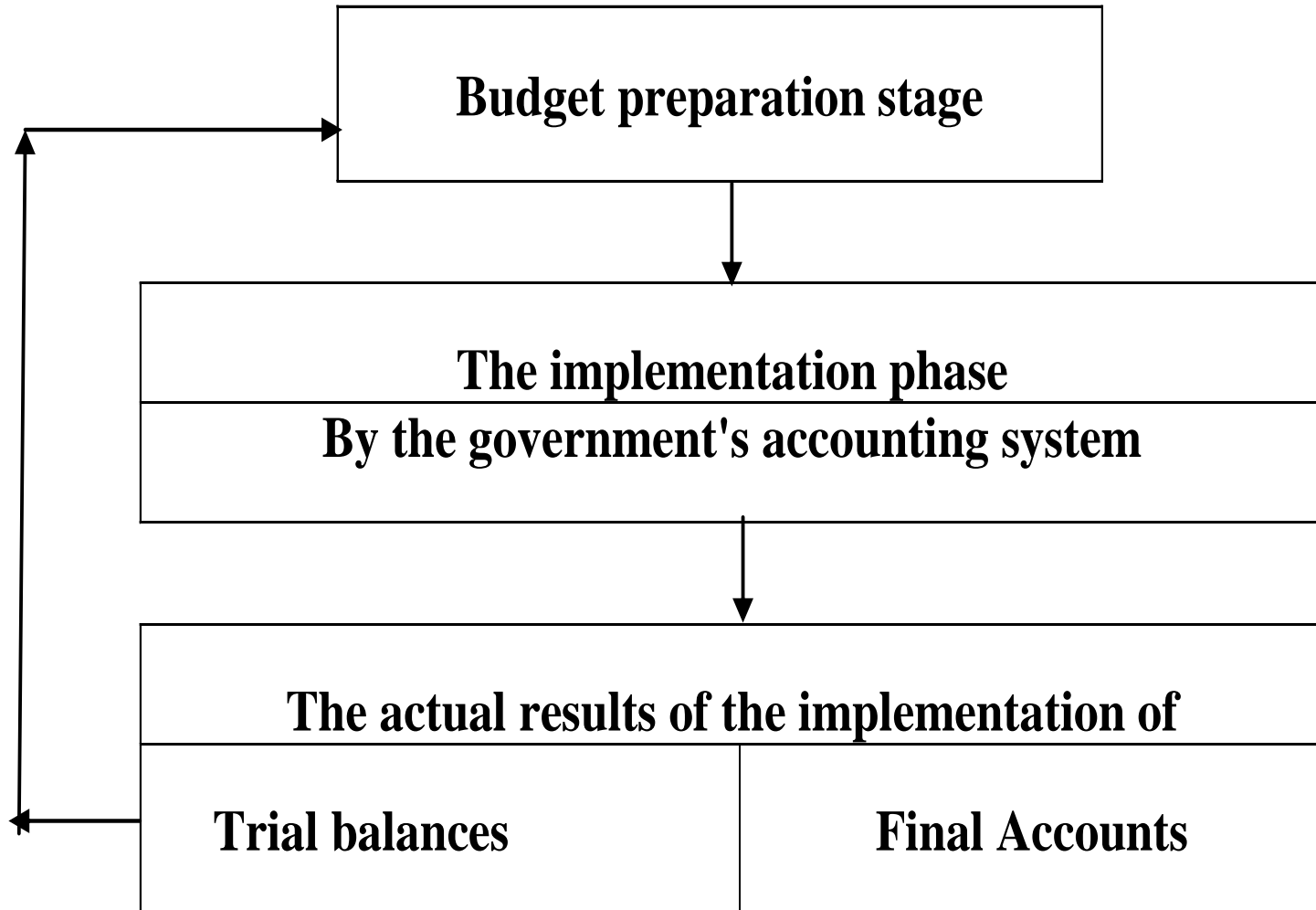
4. Control over the implementation stage:

Control over the implementation of the budget act to ensure the safety of public funds and the commitment of units of the implementation of spending certified credits charged to the appropriate accounts for the purposes of the specific aims, as well as the case to the revenue collection to be recorded in accordance with the laws and the relevant accounts by revenue type.

Steps to prepare and Implement of the State General Budget



The Relationship between the General Budget and the Government Accounting System:



Chapter Four
Iraqi Legislation and Implementation
of the elements of the money allocated
theory

Iraqi Legislation and Implementation of the elements of the money allocated theory

First: Legislation and quantitative aspect:

1. According to law of Accounts governmental units must fully comply with the funds theory and do not allow overtaking on the funds which is allocated in the budget.
2. It is not allowed to receive revenues in government units and to spend those revenues.
3. Government units cannot receive donations to increase their allocated funds in the budget.
4. Government units are not allowed to enter into commitments (obligations) that would exceed the allocations.
5. it is not allowed to delay payment of state dues in the fiscal year to another year.

Second: Legislation and qualitative aspect:

1. Expenses during the year should be recorded on the chapter and in the correct part in accordance with the accounting evidence.
2. It is not allowed to use a different account or one closest to the type of expenses.
3. There is no flexibility or exception to the law.
4. Emphasizing the importance of maintaining the budget as an indispensable instrument for both planning and control.

Third: Legislation and time aspect :

According to government accounting law:

1. It is not allowed to recycle the allocated funds in the budget, which was not spent this year, for next year.
2. Allocated funds in the budget that were not spent become void (expired) at the end of the fiscal year.

Problems of the Money allocated Funds Theory

Implementation:

1. Is not allowed to exceed the allocations without setting level :

The amount of the department

The amount of part under department

The amount of article under part

The amount of type under Article.

2. Deplete of allocations for the type of expenses before the end of the year For many reasons including , error in the estimate of allocation or lack of allocation or high prices.

Either: exceed the allocated amount or stop spending or considering it accruals?

But: the correct way is to continue spending only the amounts owed.

3. The Obligation in this year without allocations and spending the next year:

This is contrary to the law and the governmental units cannot exceed allocations only with the consent of the Minister of Finance.

4. The allocations exist, but for some reasons not spending during the same year.

The Law give the Minister of Finance to recycle the large allocations to next year.

The Ability of Spending in the sub-units of the department:

Budget in Iraq include divisions (administrative and economic, qualitative and functional)

In the administrative division of spending stops at department level and can determine the spending ability of the branch through :

1 - centralized spending:

Through Department are spending on sub-units (branch) and payment of accrued expenses on the branch.

2 - Distribution allocations

Distribution is using the distribution of funds table.

The following example illustrates this :

Q/ The following budget allocations for the for one of the governmental units within the state budget:

type	Item	chapter	Name Account	Allocations
		31	Individuals working expenses	
	01		Staff salaries	1500000
	04		Allocations wife and children	800000
	09		Other allocations	380000
	13		Bonuses	500000
	14		Exam fees	40000
		32	Service requirements	
	01		Travel expenses	10000
	02		Staff travel expenses	38000
	04		Publishing and media expenses	120000
01	04		Publishing expenses	80000
02			Expenses Media	10000
03			Newspaper subscriptions	30000
	05		Printing expenses	325000
		34	Maintenance assets	
	01		Furniture Maintenance	88000
	02		Building maintenance	290000
	03		Maintenance Streets	600000
	06		Maintenance of transport equipment	40000

Required

Distribution of the appropriations allocated to the department above for the fiscal year on the four sub-units of the department, including the department's center, according to the following:

1. Restriction of approved allocations for accounts 3113, 3202, 3403 at the center of the department.
2. The appropriations for accounts 320402, 3402 are kept in the reserve for undistributed amounts.
3. Distribution of the allocations to the rest of the accounts as follows:
10% reserve, 20% department center, 15% the first branch, 25% the second branch, 30% the third branch.