

THE ISSUES OF CASH BASIS APPLICATION TO PUBLIC SECTOR ACCOUNTING AND BUDGETING : A CRITICAL PERSPECTIVE

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ABSTRACT

In public sector accounting, government ministries and parastatals operate a cash basis of accounting which is believed to be simple in operation and understanding by staff that may not require a rigorous training in accounting. A great disadvantage is that it does not recognise assets, debtors and liabilities. This principle negligence is capable of introducing negligence into proper record keeping of how much value of infrastructural assets are being developed in the pass fiscal years, their state of activity and possibly resulting to a repetition of projects, poor monitoring of budget implementation and misappropriation of fund. The researcher took a frank analysis of the implications as they relate to the consistent problem of poor budget implementation. This study was based on empirical analysis of one hundred and thirty questionnaires distributed to 130 public servants. The researcher used SPSS to analyse the data using paired sample “t” test with the result that cash basis has a positive effect on budget implementation and fair presentation of the financial position of a government. The researcher recommended that the accrual basis of accounting should be adopted by all government ministries and extra-ministerial departments.

KEYWORDS: Expenditure, Cash-basis Accounting, Financial Position, Budget Implementation.

INTRODUCTION

Accounting is a language which is used in communicating financial information to users of financial statements. Financial transactions are recorded on the basis of cash, accrual and hybrid. The hybrid is the combination of both cash and accrual basis of accounting. Cash basis of accounting is observed to be the commonly used basis in the public sector which has some limitations and setbacks that affect financial transactions such as poor budget implementation, mismanagement of public fund etc. This can be traced to the fact that while using the cash basis of accounting, there is no attempt to match an expense with the revenue it generates. This means that income statement and balance sheet are not good pictures of recent business conditions and an expense written against specific revenue may not have been incurred for generating the revenue. This creates the issue of poor budget implementation, making it necessary to consider the relationship between public sector budgeting and cash basis of accounting.

Public sector accounting is the process of recording, analyzing, summarizing, reporting, communicating, and interpreting of financial information about government in aggregate and in details reflecting all transactions including the receipts, transfer and disbursement of government fund and property. A budget on the other hand is a framework for revenue and expenditure outlay over a specified period usually one year. It is an instrument stipulating policies and programmes aimed at realizing the development objectives of the government.

LITERATURE REVIEW

Public Sector Accounting

Public sector is that aspect of the economy that produces goods and services with the aim of maximizing the welfare of the populace. The accounting at all levels of government is closely related to the budget process. The Federal Government sets forth several accounting principles, practices and requirements to be followed by the Government, Ministries and Extra-ministerial Departments through the issuance of treasury circulars and financial regulations. The State Governments are allowed to issue their own treasury circulars for the use of Local authorities and State Ministries and Government. However it should be noted that all circulars issued must not conflict with Federal treasury circulars and where it does, the Federal treasury circulars supersedes.

Purpose and Objectives of Public Sector Accounting

The public sector accounting is necessary for the following purposes, (Berger et al 2012).

- 1. Control Purposes:** To ensure efficient financial administration through the system of internal control and management information so as to monitor the progress of planned revenues and expenditures.
- 2. Planning Purposes:** To serve as a basis for planning i.e. to provide historical basis for models, forecast, budget and plans and also as a guide to the formulation of policies.
- 3. Appraisal Purposes:** To serve as a basis for appraisal of the performance of management and staff of government. It also provides the society with financial information that will help them to reach informed decisions about the government.
- 4. Decision Making Process:** To serve as a basis for decision making.
- 5. Accounting Process:** To give evidence of financial accountability, this will promote proper stewardship and guide against dishonesty and extravagance and promote effectiveness and reasonable cost.

Unlike the private sector of the economy where there are clear objectives with the motive to make profit or a return on capital, the public sector has a multitude of demands and objectives. Primarily, the public sector is concerned with providing services to the general public which would not otherwise be available or provided adequately within the financial resources of any individual members of the public.

Implications of Cash Basis of Accounting on Financial Reporting

The popularity of cash basis arose from the need of parliament and any other interested parties to monitor government taxation receipt and the subsequent spending of the receipts. According to IFAC, (2000). The information provided under the cash basis of accounting scores highly on the characteristics of understandability.

The following are the limitations according to IFAC (2002) on cash basis of accounting. Without full and complete information about the liabilities, contingencies and commitments government and other users of government financial report cannot make realistic assessment about government's financial position. As a result of this, government cannot effectively assess the impact of past decisions on future financial position.

By not capitalizing fixed assets at the time of acquisition, no subsequent account is taken as to whether the fixed assets are still in use, has reached the end of the useful life or has been sold. In addition, since fixed assets are written off in the year of purchase, their cost is not spread

over the useful life through annual depreciation charges. By not charging depreciation and cost of capital the true cost of running a particular government programme is under-stated. This in turn does not allow for cost comparison with alternative public service providers. Another important area of limitation of cash basis of accounting is the issue of hidden debt of government as huge amounts owed by government are not reported and hence not taken into account when assessing government's financial position or determining its future financial requirement.

The Impact of Cash Basis on Budget Implementation

Since cash basis of accounting has a negative effect and implication on financial reporting, it should be noted that it also has an impact on budget implementation. This is so because of the following reasons :

1. The financial reports prepared can be less reliable and inconsistent over time. This is because it makes it difficult for government to effectively assess both the impact of past decisions on future financial positions and the impact of current decision on future financial position of government especially in the area of capital project implementation.
2. It does not observe the law of probity in public service because it does not follow through all the stages of transaction which therefore can allow for misappropriation or misuse of public funds.
3. Since it does not represent and reveal the accurate picture of the financial position of affairs of the government, it can create a gap between what was promised and what was actually done.
4. There is a tendency of overloading and excessive payment to contractors in terms of contract of capital project. Since it does not recognise assets at the end of the year.
5. There is the tendency of debt re-occurrence which would have been either written off or fully paid because it eliminates the theory of debtors and creditors so it may be impossible to follow up abandoned projects.
6. Since it is based on procedures in terms of payment rather than work done, it tends to eliminate the concept of value for money in the public sector with regards to budget implementation.

7. Having understood that the whole essence of public sector accounting is not for profit making but for the satisfaction of the members of the public (citizens). The cash basis of accounting might overlook the fact that satisfaction can also mean profit to an individual for tax payment made to the government.

METHODOLOGY AND ANALYSIS

The study was a survey research. The researcher used a well structured questionnaire to collect primary data from 130 civil servants in the accounting and administrative cadre. The office of the director of budget from the three states was also surveyed. The reliability of the instrument was tested with test and pre-test method. The validity of the instrument was tested with spearman rank correlation coefficient using the pre- test result generated. The output was 0.763 showing that the instrument was valid for the study. The final data collected from the field work was analysed with descriptive statistics on the relationship between cash basis of accounting and budget implementation, financial discipline and level of public expenditure with Statistical package for social sciences (SPSS).

Four hypotheses were generated and tested with paired sample “t” test using SPSS. The hypotheses were based on the relationship between cash basis and budget implementation, cash basis and financial discipline, cash basis and government expenditure, and expenditure pattern with investment inflow.

RESULTS INTERPRETATIONS AND DISCUSSIONS

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis		
		Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Std. Error
Cash-basis	130	2.00	4.00	3.8846	.38649	-3.563	.212	12.717	.422
Budget	130	1.00	4.00	3.7923	.57998	-3.341	.212	11.911	.422
Finance-position	130	2.00	4.00	3.6692	-.68640	-1.801	.212	1.599	.422
expenditure	130	3.00	4.00	3.6462	.48001	-.618	.212	-1.643	.422
Valid (listwise)	N 130								

The table one above is the descriptive statistics of the variables; cash basis of accounting, budget implementation, financial position of government, expenditure pattern in the public sector. The mean difference is between 3.88 to 3.64. with a skewness of -1.618, and kurtosis of -1.643, indicating that variables are not perfectly normally distributed.

Table 2. Paired Samples Test on the hypotheses

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	cashbasis – budget	.09231	.60291	.05288	-.01231	-.19693	1.996	129	.083
Pair 2	cashbasis – expenditure	.23846	.47908	.04202	.15533	.32160	5.675	129	.000
Pair 3	expenditure – investment	-.02308	.66432	.05826	-.13836	.09220	-.396	129	.693
Pair 4	cashbasis – financial position	.21538	.83513	.07325	.07047	.36030	2.941	129	.004

Results from the above t test table indicated a t value of 1.996 which is greater than the ‘t’ critical value of 1.960 for the relationship between cash basis of accounting and

budget implementation. At 95% confidence interval of .01231 to .19693 shows that the relationship is negatively significant. Cash basis of accounting negatively affects effective budget implementation in the public sector.

For hypothesis two, the result also indicated that cash basis of accounting is positively significantly related to the pattern of expenditure in the public sector. With interval levels of .15533 to .32160 and at value of 5.675 which is greater than 1.960 critical value. For hypothesis three, the result also proved that there is no significant relationship between the expenditure pattern of the government using cash basis of accounting and foreign investment options. With value of 0.396 the null hypothesis is accepted that government expenditure pattern does not affect investment options at 95% confidence interval of 0.5 to - 0.13.

For hypothesis four, the pair sample t test indicated that a significant relationship exist between cash basis of accounting and fair reporting of financial position of the government. With a confidence level of 0.79 to 0.70 at 95% both positive, the result is significant. A t value of 2.9 which is greater than 1.960 critical value, the alternative hypothesis is accepted and null rejected.

CONCLUSION AND RECOMMENDATIONS

The aim of the research was to determine the implication of cash basis of accounting of budget implementation in the public sector. This study explains the results of the hypotheses that were tested using SPSS on the relationship between cash basis of accounting (the independent variable) and the rest dependent variables budget implementation, investment option and public expenditure pattern.

From the research study and the information derived from the hypothesis tested, it was discovered that cash basis of accounting as the independent variable has a positive significant relationship with budget implementation, investment option and expenditure pattern in the public sector. The research also reveals that the right basis of accounting when used can bring about effective budget implementation which in turn results in economic growth, development and stabilization in the public sector. The research further reveals that the right basis of accounting can bring about follow-up on capital projects, the application of the concept value for money audit and observation of the law of probity in the public sector.

It was observed in the test of hypothesis one that the relationship between cash basis of accounting and budget implementation is negatively significant therefore rejecting the null hypothesis. The result for hypothesis two proves that the cash basis of accounting is positively significantly related to the pattern of expenditure so therefore the null hypothesis is rejected. The result for hypothesis three proves that there is no significant relationship between expenditure pattern and investment option which makes the null hypothesis accepted. The result for hypothesis four indicated a significant relationship between cash basis of accounting and investment option thereby rejecting the null hypothesis and accepting the alternative.

Having gotten the result above, it is true that cash basis of accounting is simple and easier to operate and that it is used in the public sector because it is not profit oriented. It should be noted that the very essence of public sector accounting is to bring about satisfaction as a form of profit to the public; the satisfaction can best be derived when budget is properly implemented to bring about the desired result. It is therefore of importance that the right basis of accounting that will bring about budget implementation as a form of satisfaction to members of the public be in use in the public sector.

For better effectiveness on budget implementation in the public sector, it is recommended to follow the accrual basis of accounting because it shows the financial position and changes in the financial position fairly. Accrual basis can also be used to evaluate government performance, efficiency and accomplishment and also an opportunity to demonstrate accountability to members of the public. Budget implementation should be considered as a public venture which requires public participation by reporting to the relevant authority on the extent of completion of projects.

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