FINANCIAL REPORTING IN PUBLIC INSTITUTIONS AND NON-FINANCIAL ENTITIES. SIMILARITIES AND DIFFERENCES

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Abstract: The present paperwork contains issues regarding financial reporting at the public institutions and non – financial entities. The main aspects are regarding the obligation of all entities to present the financial statements, the content of financial statements in public institutions and non-financial entities. Also, is presented the similarities and the differences aspects between financial reporting of these two patrimonial entities.

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1. Introduction

In the current economic environment, accounting is indispensable within any entity because its theoretical and practical limits enable knowledge about economic phenomena, but also about their systematization and presentation.

Public institutions, economic agents and other entities are required to submit a series of information about how activity is run, financial position and obtained results, which is necessary information for a wide range of users. For this, they are required to prepare financial statements or reports.

The importance of financial reporting, and therefore of accounting, is obvious considering the number of institutions dealing with organizing and regulating accounting. Financial reporting is the end result of the accounting activity by classifying and summarizing financial transactions.

The need to prepare financial statements arises from the need to provide information needed to make decisions regarding the organization and running of the activities of entities in order to reflect a true, clear and accurate picture both in the public sector and at the level of the non-financial entities.

Thus, both public institutions and economic agents (non-financial entities) are required to summit financial statement, quarterly and annually, and biannually and annually.

The information included in financial reports must be accurate, relevant and it must allow knowledge about certain aspects regarding the entity in question (name, reporting period, balance sheet date).

2. Objectives

Preparing financial reports is an obligation of all entities, public or private, financial or non financial. They allow the assessment of the activity and of the obtained results. This paper aims to accomplish a comparison between the financial statements of public institutions and those prepared by non-financial entities by establishing their main similarities and differences in terms of objectives, and also of the structural components, regulated by national legislation and international accounting standards.

3. Research methodology

Research, as a methodical and systematic searching process for subjects of real interest, aims to acquire additional knowledge by discovering new facts and visions regarding the existent accounting reality.

In terms of the subject of the paper, the research method is a cognitive approach of the perception phenomenon of financial statements prepared by public institutions and economic agents, a systematic approach to investigate the reality reflected by them.

The work technique consisted in reviewing the specialized literature and legislation that provide the presentation manner of financial statements in public institutions and non-financial entities in order to make comparisons that reflect main similarities, but also their differences.

4. Financial reporting – presentation and characterization

Observing economic phenomena and processes requires organizing, presenting and keeping accounting information in a structured form: financial statements.

Currently, entities are forced to prepare financial statements that highlight the activity, as well as its situation at a given moment.

Financial reporting is the end result of the activity. It must allow knowing the financial position, the performance, as well as the evolution of the financial position in order to make fair and relevant decisions.

According to IAS 1, "Presentation of financial statements", financial statements are a structured representation of the financial position of a company and of its transactions, targeting to provide information about financial position, performance and changes in the financial position of an enterprise to a wide range of users.

According to IPSAS 1, "Presentation of financial statements", financial statements are a structured representation of the financial position of an entity and its undertaken transactions.

Thus, a unified approach of the financial statements' content is obvious, regardless if they are prepared by public institutions or private entities.

According to international accounting norms, the situation regarding financial performance must present an adequate classification of revenues for the activities of the entities and the analysis of expenses by using as criterion the nature of expenses or their destination.

IPSAS 2, "Cash flow statements", states that entities which prepare and present financial statements under the accrual basis of accounting should prepare a cash flow statement and present it as an integral part of its financial statements for each reporting period.

Any transaction performed by an entity implies noticing its effect over the elements in financial statements.

Considering the leading role played by financial statements at the level of public institutions and non-financial entities, it is required to present their object and purpose. Therefore, the objective of financial statements[14] is to provide information about the performances and financial position of the reporting entity, information that must prove to be useful for a wide range of users during the assessment of the management manner, which is conducted by the directors of the enterprise, and during the process of making economic decisions.

IPSAS 1 shows that the objective of general purpose financial reporting in the public sector should be to provide useful information for decision-making and to demonstrate the accountability of the entity for resources entrusted to it.

The purpose of preparing financial statements is[15] to obtain and provide useful information for decision-making and to justify the use of financial resources after achieving a centralized accounting system.

Another role of financial statements is to provide predictive information, which allows predicting the quantity of required resources, but also of the resources to be consumed during the activity, by taking into account certain risks.

The information in financial statements must meet with a series of qualitative characteristics, such as:

- Understandability – the ability of the information to be comprehensible for its users, who study financial statements;
- Relevance – making a judgement that has the possibility of influencing the decisions of users;
- Reliability – involves the lack of significant errors so that the information is credible;
- Comparability – represents the possibility to compare information across time and space. Financial statements must include comparative information for the current period, as well as for the previous period.

These qualitative characteristics are required for the final products of public institutions' accounting, as well as for non-financial entities.

They are important for decision-making because they avoid confusions and problems faced by the entity in question. Preparing financial statements involves taking into account all the factors that may influence the performance of public institutions and economic agents, but also potential changes regarding the assessment of revenues, as well as funding opportunities.

Financial statements based on cash accounting provide information about cash resources resulted during the period, about the purposes for which cash was used and about the cash balances at the reporting date.

Cash accounting is a basis of accounting that recognizes transactions and events only when the entity receives or pays in cash or cash equivalents.

The requirements of IAS 1, "Presentation of financial statements", are applied only to external reports prepared and presented according to international financial reporting standards.

IAS 1 also requires entities to prepare financial statements maintaining the presentation of their elements from a period to the next unless significant changes occur

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[14] Liliana Feleagă, Niculae Feleagă, Contabilitate financiară. O abordare europeană şi internaţională, Economică Publishing House, Bucharest, 2007, p. 206.

[15] Iuliana Cenar, Contabilitate instituţiilor publice, Casa Cărţii de Ştiinţă Publishing House, Cluj – Napoca, 2007, p. 230.

in the nature of the entity's activity or when these changes are required by a subsequent accounting rule. These requirements are also found in IPSAS 1.

We noticed the subordination of financial statements to a precise objective – accurate picture, the need for qualitative characteristics in incorporated information, the need to meet the information requirements of various categories of users.

Public institutions are dealing with two categories of financial statements: prepared on the accrual basis of accounting and on the cash basis of accounting, the latter being the effect of combining public finances (budgetary principles) with accounting principles in the realm of public institutions.

5. Content of financial statements in public institutions and non-financial entities

Preparing financial statements is a complex process[16] of aggregating current accounting data, a generator of economic and financial indicators regarding the financial situation and the results obtained by each centre of economic decision.

Even if the structure of financial statements is similar in all countries, there are differences due to the diversity of users' needs.

Currently, all entities, public or non-financial, are required to present a set of financial reports that accurately reflect the situation and their financial accomplishments, differentiated by the size of the enterprise.

General financial statements provide information regarding the activity of entities, private or public. These must be prepared and presented annually.

International requirements stipulate the compulsoriness of the following elements in financial reports: name of the reporting entity, the reporting unit and currency, the reporting date, the reporting period, changes occurred in such information.

The table below displays the structure of financial statements for economic agents and the private sector according to national regulations (OMPF 3055/2009 for the approval of accounting regulations in accordance with European Directives and OMPF 1917/2005 for the approval of Methodological Norms on the organization and management of public institutions' accounting, with subsequent amendments and completions).

Table no. 1. Structure of financial statements at public institutions and non-financial entities

Public institution	Non-financial entities
Balance sheet	Balance sheet
Income statement	Profit and loss account
Treasury flow statement	Cash flow statement
Statement of changes in assets	Statement of changes in equity
Annexes to the financial statements (accounting policies and noted to the financial statements)	Notes to the financial statements
Budget execution account	

Based on the data in the table we can see a few similarities and differences between these two patrimonial entities.

[16] Iuliana Cenar, Contabilitate instituţiilor publice, Casa Cărţii de Ştiinţă Publishing House, Cluj – Napoca, 2007, p. 237.

Thus, public institutions prepare the income statement, which replaces the profit and loss account of non-financial entities. The reason is simple, namely being the pursued goal, because public institutions are not profit driven, but are focused on providing complete, quality services.

The income statement presents the situation of revenues, funding and expenses during the current year; funding is also a specific category for public institutions, along with tax incomes and contributions.

On the same grounds, it must be said that the income statement doesn't include indicators regarding income tax expenses and other tax expenses. Instead, it includes other stock expenses (specific for public institutions), other expenses authorized by law and expenses with staff incentives.

The element in the structure of financial statements that makes a difference between non-financial entities and public institutions is the budget execution account. It is divided into budget execution account for expenses and budget execution account for revenues. This type of account allows comparisons between expected income, as well as realized income and budgetary appropriations, and budgetary expenditure achieved in terms with two aspects: net cash payments and actual costs. These documents reveal deviations from initial or final budgetary provisions, the encashment level of revenues, and the payment level of incurred expenses, etc.

The balance sheet prepared by both categories of entities looks like a list and includes: assets, equity and debts grouped by liquidity, provenance and chargeability.

Note the different structure of equity, meaning the replacement at public institutions of social capital, of share premiums, of reserve funds (fund of depreciable fixed assets, fund of the assets belonging to the public/private domain of the state/territorial administrative units, special funds).

This difference is natural considering that public institutions are built on laws by delimiting their assets from the assets of the government, unlike non-financial entities that are built on subscribed capital and on paid-up capital contributed by associated/shareholders.

In the balance sheet of public institutions there is a specific element in the category of tangible fixed assets, namely: other assets of the state that include deposits, mineral resources or other assets owned by the state. Another specific element is represented by the budget account receivables that may belong to the state budget, the local budget, the social insurance budget, the special funds budget, the unemployment insurance budget and the social health insurance budget.

Regarding available assets, the public sector includes distinct categories: budget availabilities, disposable special funds, cash in hand of public institutions and activities funded integrally or partially from own revenues and cash in hand from revenues of special funds.

The statement regarding capital changes in public institutions does not include the concept of subscribed capital due to how it was established.

The common elements of the financial statements of the two categories of entities comprise:

- Both public institutions and economic agents are required to prepare a balance sheet that highlights assets, debts and equity at the end of the year, as well as in other situations stipulated by the law. Preparing financial statements is done according to the regulations issued by the Ministry of Public Finance. The regulating body establishes the forms' model.

- Financial statements involve complying with certain rules regarding elaboration, approval and publishing;
- The purpose of financial reports is identical: ensuring an accurate picture, showing the financial position, the financial performance and the changes of the financial position through financial reporting;
- The format of the balance sheet and of the income statement resembles a list for both categories of entities;
- Public institutions and economic agents are required to prepare the cash flow statement in order to show the existence and movement of cash;
- The statement regarding assets/equity changes provide information about the structure of equity, increases and decreases of each element of capital account for both entities; IPSAS 1 stipulates the compulsoriness of presenting the total value of revenues and expenditure for the period when changes in net assets/equity in the public sector occur.

Users of accounting information are represented in public institutions by authorizing officers, employees, contributors and subscribers to various services, government, Parliament, creditors, clients and other users (international financial institutions); in the case of economic agents, the recipients are owners, managers, auditors, current or potential investors, current or potential creditors, tax authorities, control institutions, planning bodies, employees, unions and the general public.

We note a similar structure of the users of accounting information (creditors, employees, state institutions, media), but the place of investors at the level of public institutions is taken by contributors and state. What is certain is that the producers of accounting information (accountants, auditors, analysts, evaluators, etc) face numerous challenges generated by the evolution of society, the information demands of users, the complexity of economic activities, etc.

In terms of the international accounting rules for the public sector, the components of financial statements are presented separately on two type of accounting: accrual accounting and cash accounting. Romanian legislation presents them as a whole, but recognizes two components: revenue and expenditure accounting, which reflects the encashment of revenues and the payment of expenses associated with the budget year, and general accounting based on the rights and obligations principle, which reflects the evolution of the financial situation and the asset situation, as well as the assets' surplus or deficit.

Although they have different contents, the financial statements of public institutions and economic agents reflect their entire activity and preparing them is required in order to accurately assess financial positions, financial performances and treasury flows.

6. Conclusions

The society of the third millennium is labelled by the presence of permanent changes, in which communication in an accounting language is a survival necessity, satisfied by understanding the significance of transparency and the quality of the accounting information.

The aspects mentioned previously lead us to draw at least the following conclusions:

- Preparing financial statements allow public entities and economic agents to know their situation and the achieved performances;

- Financial reporting is a representation of the final outcome of the activity, having as purpose to provide information about the financial position, the performance and the changes occurred within the financial position of the entity;
- Their goal is to obtain relevant information for fair decision-making. Thus, the information is required to comply with a series of qualitative conditions, such as: understand ability, reliability, relevance and comparability;
- The structure of financial statements is similar for all entities, but there are a few differences due to the diversity of users' needs;
- The differences between statements of public institutions and the ones of economic agents come from the financing manner. It the case of economic agents, the entire activity is organized by complying with the self management principle, while in public institutions prevails the need to use public financial resources with maximum efficiency;
- In terms of the components of these difference, they are not major and are caused by their goals and needs;
- Preparing financial statements is absolutely necessary at the level of all entities because it allows good emphasis of the activity in order to make relevant decisions for sustainable development.

In the context of internationalization, financial statements should comply with the requirements of a wide range of users, should contribute to reaching the fundamental objective of accounting – accurate picture. Accounting should be adapted to respond to the complex contemporary challenges, generated by globalization, by extending financial markets, etc.

The meaning[17] of producing accounting information is justified by its "consumers", whose satisfaction should be a crucial issue as a result of increasing the impact and social responsibilities over the optimum combination and dosage of information resources that trigger synergies, being the basis of building a systemic vision where elements with a prospective and constructive feature have decisive weight.

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