

# **IMPLICATIONS OF THE INFORMATION SYSTEM REGARDING THE BUDGETARY EXECUTION OF EXPENDITURES ON THE ACCOUNTING MANAGEMENT OF PUBLIC INSTITUTIONS**

**Assoc. Prof. Valeriu Brabete Ph. D**  
**University of Craiova**  
**Faculty of Economics and Business Administration**  
**Craiova, Romania**

**Abstract:** Within the national economy, the public sector occupies an important place due to the specific activities carried out within it, activities considered indispensable for the smooth running of society, both at the central and local level. Within the financial-accounting management of public institutions, particular importance is assigned to the phases of budget execution of expenses. Our study proposed an analysis of the four phases of the budget execution process of expenses, from the perspective of the specific processing of each phase and the methodological implications on accounting management, trying to highlight both the necessary information and the information provided, so that, finally, to be able to conclude on the contribution that these phases have in supporting the general approach of substantiating some decisions by the financial-accounting management.

**JEL classification: M40, M41**

**Key words: budgetary expenses; budget execution; the phases of budget execution; conceptual delimitations; financial management accounting**

## **1. INTRODUCTION**

The entire financial-accounting activity of public institutions is based on an extensive process called the budget process, the stages of which refer to an essential document called the budget.

The budget process represents the consecutive stages of elaboration, approval, execution, control and reporting of the budget, which ends with the approval of the general account for its execution and the budget is the document by which revenues and expenses are foreseen and approved every year or, as the case may be, only expenses, depending on the financing system of public institutions.<sup>1</sup>

The relations of public sector entities with the environment in which they operate generate the need for relevant and objective information, the satisfaction of which requires an adequate offer.

The production of financial-accounting information is ensured by professional practitioners in the field, a process that takes place in an organized manner, within the accounting information system of public entities. This type of information must satisfy

---

<sup>1</sup> Legea nr. 500/2002 privind finanțele publice, Monitorul Oficial nr. 597/2002.

certain needs, therefore be useful for all those who form the category of users of accounting products, a fact for which their dissemination must be constituted in a dynamic and rational process.

It is known that, in general, the adoption of decisions is based on the use of information, which is analyzed, interpreted, and therefore capitalized. However, until obtaining the necessary information to substantiate some decisions, various preliminary stages are completed upstream, aimed at collecting, storing and processing some data, which, in the end, allow obtaining information to be exploited.

In order to carry out its functions and tasks, the state ensures the satisfaction of general public needs. For this, he needs consistent monetary resources that are trained through financial relationships. The use of the monetary resources thus mobilized takes place through public spending.

The category of public expenses is closely related to all acts and operations for the distribution and use of state funds for social-cultural and economic actions, for the maintenance of state bodies and national defense, etc.

According to the normative framework in force "public institutions, regardless of subordination and the way of financing the expenses, have the obligation to comply with the procedures regarding the completion of the four phases of the budgetary execution of the expenses, namely the hiring, liquidation, ordering and payment of the expenses"<sup>2</sup>.

Seen from the perspective of the financial-accounting management of public sector entities, these four phases of the budget execution process, on the one hand, assume the observance of specific work procedures, and on the other hand, the collection, storage and processing of data, as well as the generation of information that is used either within the same execution phase or within the following phase(s).

## **2. OBJECTIVES**

In our study, we proposed an analysis of the four phases of the budget execution of expenses process, from the perspective of the specific processing of each phase and the methodological implications on accounting management, trying to highlight both the necessary information and the information provided, so that, in the end, we can conclude on the contribution that these phases have in supporting the general approach of substantiating some decisions by the financial-accounting management.

Thus, our approach will not only focus on the presentation of the methodological aspects aimed at the process of recognizing and recording in accounting the actual expenses (costs or consumption of resources), as they are reflected in the patrimonial result account, but we will try to offer a overview of the processing specific to financial-accounting management, starting from the four specific stages of budget execution and up to the accounting representation.

Therefore, the general issue of specific expenses of public sector entities will be analyzed, on the one hand, from the perspective of the budget execution process (expenses approached in a financial sense, as payments), and on the other hand, from

---

<sup>2</sup> OMFP nr. 1792/2002 pentru aprobarea Normelor metodologice privind angajarea, lichidarea, ordonanțarea și plata cheltuielilor instituțiilor publice, precum și organizarea, evidența și raportarea angajamentelor bugetare și legale, Monitorul Oficial nr. 37/2003.

the perspective of recognition and registration in accounting (expenses approached in an accounting sense, in the form of costs or consumption of resources).

### **3. METHODOLOGY**

In order to achieve the objectives we have proposed, the research method used will target several specific procedures among which observation, analysis and comparison will have a significant weight.

In the first phase of the research, we paid attention to the detailed analysis of the normative framework that regulates the issue of budgetary execution of expenses.

Later, in order to be able to formulate personal points of view, as well as the conclusions related to the study, the research undertaken focused on performing an analysis of the four phases of the budget execution process of expenses, from the perspective of the processing specific to each phase and the methodological implications on accounting management.

### **4. RESULTS AND DISCUSSIONS**

#### **4.1 Conceptual And Methodological Delimitations Regarding The Expenditure Of Public Sector Entities**

Viewed from the perspective of the specific stages of the budget execution process, expenses are interpreted in a financial sense, considering the fact that the end point of this process is their actual payment, through the advancement of cash flows.

The procedures that characterize the budget execution process of expenses are distinguished by a set of particularities and specific processing, which, on the one hand, call on certain data and information, and on the other hand, provide in turn a set of data and information, which are subsequently used by the financial-accounting management of public entities.

At the same time, the powers of the people who have duties in the budget execution process are well defined and must be respected, in accordance with the legal provisions in force.

The accounting approach to the concept of expenses is based on the principle of accrual accounting, according to which they reflect the amount of goods and services consumed during a budget year, even if they are paid or not during that period.

Practically, in this context, it can be observed that from an accounting point of view, the concept of expense is not necessarily attached to the idea of payment, in a financial sense, because the expenses recognized in accounting do not always cause cash outflows (not every expense in the accounting sense is directly associated with a payment).

The expenses incurred by public institutions are also called budget expenses because they are provided in a budget that must not be exceeded. Budgetary expenses are grouped according to the budget classification established by law, they being approved and carried out from the state budget, local budgets, the budgets of public institutions and public services of local interest, as well as from the budgets of activities fully financed from extra-budgetary revenues, within the limit and with the destinations provided for in the respective budgets. Budget expenditures have a precise and limited destination and are determined by the authorizations contained in specific laws and annual budget laws.

In accordance with Romanian accounting regulations, expenses represent the cost of goods and services used to provide public services or revenues, as the case may be, as well as subsidies, transfers, social assistance granted, related to a period of time.

#### **4.2 The Information System Specific To The Phases Of The Budget Execution Process Of Expenditures And Its Implications On The Accounting Management Of Public Sector Entities**

In the following pages, we will analyze the four stages of the budget execution of expenses process and we will highlight both the specifics of each stage, the characteristic methodological elements and the related documentation, as well as the implications that these stages have on the specific accounting processing of public sector entities.

The commitment of expenses represents "the stage in which the institution creates its legal obligations towards third parties (legal commitment) and reserves the budgetary credits necessary to cover these obligations (budgetary commitment)"<sup>3</sup>.

The liquidation of expenses "is the phase in the budget execution process in which the existence of commitments is verified, the reality of the amount due is determined or verified, the conditions of enforceability of the legal commitment are verified based on the supporting documents attesting to the respective operations"<sup>4</sup>.

Documents certifying completion of the expenditure liquidation phase are the basis of accounting records to reflect goods received, services rendered or works performed, as well as payment obligations to creditors.

From what was previously presented, regarding the specifics of the expenditure liquidation stage, it follows that the accounting registration of economic operations carried out by public entities, by applying the principle of double registration, except for those related to the payment of related obligations, is carried out, in most cases, within this stage.

However, although from the point of view of budget execution we are talking about the liquidation of expenses, not all economic operations simultaneously trigger the recognition of expenses in the accounting sense, by debiting some accounts from class 6 "Expenditure accounts" (we say that they do not trigger in all situations, because they are also economic operations which, by their nature, allow the simultaneous recognition in the accounting of some expenses during the liquidation stage, for example operations related to settlements with personnel). From an accounting point of view, certain expenses will be recognized later, according to their nature, through class 6 accounts, as expenses of the period, when they are generated (for example, depreciation expenses, expenses related to the consumption of stocks, etc.).

The ordering of expenses "is the phase in the budget execution process in which the existence of the commitments is verified, the reality of the amount due is determined or verified, the conditions of enforceability of the legal commitment are verified based on the supporting documents attesting to the respective operations"<sup>5</sup>.

---

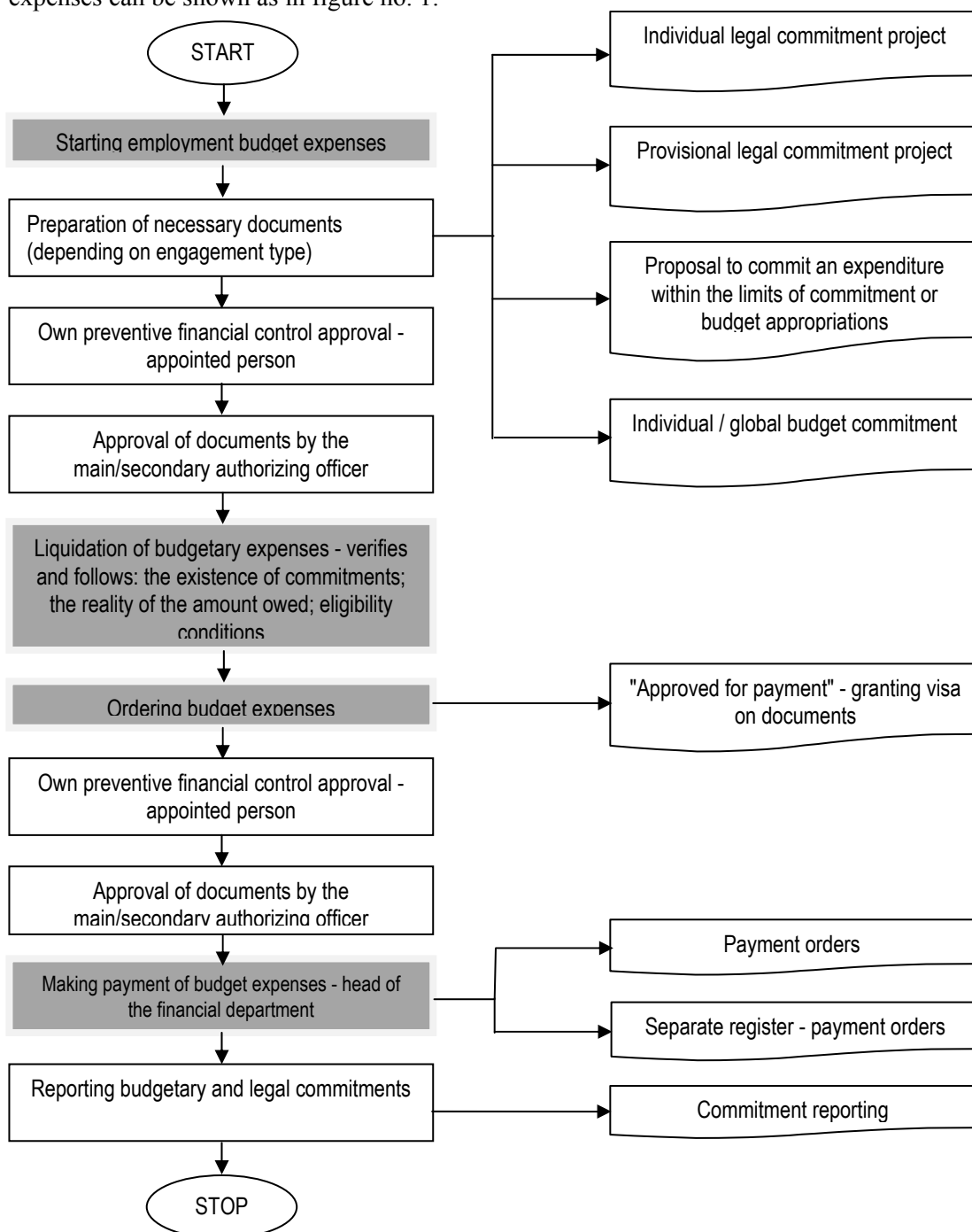
<sup>3</sup> OMFP nr. 1792/2002 pentru aprobarea Normelor metodologice privind angajarea, lichidarea, ordonanțarea și plata cheltuielilor instituțiilor publice, precum și organizarea, evidența și raportarea angajamentelor bugetare și legale, Monitorul Oficial nr. 37/2003.

<sup>4</sup> Idem.

<sup>5</sup> Idem.

The payment of expenses is the final phase of budget execution through which the public institution is released from its obligations towards third-party creditors.

Presented in a schematic form, the stages of the budget execution process of expenses can be shown as in figure no. 1:



**Figure no 1 Logical scheme of the budget execution of expenses process**

*Source: own processing based on PFMO no. 1792/2002*

To support what was stated previously, we will present some concrete examples, through which we will point out, on the one hand, economic operations that cause the accounting recognition of some expenses in the liquidation phase, and on the other hand, operations that do not fit into this pattern.

**Example 1 – accounting for fixed assets (non-depreciable)**

<b>Explanations</b>	<b>Specific documents</b>	<b>Expenditure in the financial sense - cash outflow (payment)</b>	<b>Accounting recognition of assets, liabilities, equity, expenses and income</b>
Commitment	Proposal to commit the expenditure Individual or global budget commitment Legal commitment: Contract/order	No	No
Liquidation	Invoice Minutes of reception	No	- receipt of the purchased asset: 213 01 = 102 01 10.000 - invoice registration and expense recognition: 682 01 = 404 01 10.000
Authorization	Payment order	No	No
Payment	Payment orders Account statements	Yes	- payment of the obligation to the supplier: 404 01 = 512 01 10.000
Other expenses recognized by the accountant, according to the nature at the time they are generated	Nu	Nu	Nu

**Example 2 – accounting for fixed assets (depreciable)**

<b>Explanations</b>	<b>Specific documents</b>	<b>Expenditure in the financial sense - cash outflow (payment)</b>	<b>Accounting recognition of assets, liabilities, equity, expenses and income</b>
Commitment	Proposal to commit the expenditure Individual or global budget commitment Legal commitment: Contract/order	No	No
Liquidation	Invoice Minutes of reception	No	- receipt of the purchased asset: 213 01 = 404 01 10.000
Authorization	Payment order	No	No
Payment	Payment orders Account statements	Yes	- payment of the obligation to the supplier: 404 01 = 512 01 10.000
Other expenses recognized by the accountant, according to the nature at the time	Register of inventory numbers Fixed asset record	Nu	- recognition of depreciation expense (10.000/4/12 = 208,33 lei): 681 01 = 281 03 208,33 681 01 = 281 03 208,33

they are generated			
--------------------	--	--	--

**Example 3 – stock accounting**

Explanations	Specific documents	Expenditure in the financial sense - cash outflow (payment)	Accounting recognition of assets, liabilities, equity, expenses and income
Commitment	Proposal to commit the expenditure Individual or global budget commitment Legal commitment: Contract/order	No	No
Liquidation	Invoice Goods Received / Receipt Note	No	- receipt of purchased stocks (year N): 303 01 = 401 01    7.000
Authorization	Payment order	No	No
Payment	Payment orders Account statements	Yes	- payment of the obligation to the supplier (year N): 401 01 = 512 01    7.000
Other expenses recognized by the accountant, according to the nature at the time they are generated	Supply/Material Requisition Form	No	- Inventory items put into use: Year N: 303 02 = 303 01    3.000 603 00 = 303 02    3.000 Year N+1: 303 02 = 303 01    4.000 603 00 = 303 02    4.000

**Example 4 – payroll accounting**

Explanations	Specific documents	Expenditure in the financial sense - cash outflow (payment)	Accounting recognition of assets, liabilities, equity, expenses and income
Commitment	Proposal to commit the expenditure Individual or global budget commitment Legal commitment: Organization chart + State of functions + Individual employment agreements	No	No
Liquidation	Payroll + Payroll centralizer	No	- gross wages due: 641 00 = 421 00    30.000 - insurance contribution for employment: 645 07 = 431 06    675 - deductions from gross wages (tax, HID premiums): 421 00 =    % <u>14.500</u> 444 00    4.000 431 02    7.500

			431 04 3.000
Authorization	Payment order	No	No
Payment	Payment orders Account statements	Yes	- payment of the net salary: 421 00 = 512 01 15.500 - transfer of fiscal and social obligations: % = 512 01 <u>15.175</u> 444 00 4.000 431 02 7.500 431 04 3.000 431 06 675
Other expenses recognized by the accountant, according to the nature at the time they are generated	No	No	No

## 5. CONCLUSIONS

From what was presented previously, it was found that the analysis of the concept of expenses can be done from a double perspective:

- from a financial point of view, a situation in which the analysis carried out brought into discussion the four stages/phases of the budget execution process and the highlighting of expenses in the sense of giving money (payment made by advancing cash availability);

- from an accounting point of view, a situation in which the analysis was carried out from the perspective of accounting principles (the principle of accrual accounting and the principle of double recording), which underlines the fact that the recognition in accounting of some expenses does not always coincide with the moment of the advancement of cash availability or not always involve cash outflows.

## REFERENCES

1. \* \* \* Legea nr. 500/2002 privind finanțele publice, Monitorul Oficial nr. 597/2002.
2. \* \* \* Legea contabilității nr. 82/1991, Monitorul Oficial nr. 629/2002.
3. \* \* \* Legea nr. 301/2002 privind auditul intern și controlul financiar preventiv, Monitorul Oficial nr. 339/2002.
4. \* \* \* OG nr. 119/1999 privind auditul intern și controlul financiar preventiv, Monitorul Oficial nr. 430/1999.
5. \* \* \* OMFP nr. 1792/2002 pentru aprobarea Normelor metodologice privind angajarea, lichidarea, ordonanțarea și plata cheltuielilor instituțiilor publice, precum și organizarea, evidența și raportarea angajamentelor bugetare și legale, Monitorul Oficial nr. 37/2003.
6. \* \* \* OMFP nr. 1917/2005 pentru aprobarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia, Monitorul Oficial nr. 1186/2005.