

# Comparative Analysis on the Public Treasury Management Accounting in Romania - Present and Future -

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## *Abstract*

*This paper work is making a comparison between current accounting system and cash and accrual accounting system type of the Public Treasury highlighting the main disadvantages and advantages of the application of accrual accounting.*

**Keywords:** *treasury, public treasury, cash accounting, advantages of cash type accounting, disadvantages of cash type accounting, Accrual Accounting*

**JEL classification:** M41, M48

## **Introduction**

International economic environment, relatively favorable for Romania in the post-Revolution period gradually deteriorated, especially since the second half of 2007, with accelerating growth of the world's major economies.

Framing the consolidated budget deficit target was supported by two factors. Budget expenditures were reduced in accordance with Chapter shortcomings of budget revenues (0.7% of GDP). Treasury Management performance and has made a substantial reduction in public debt interest expenses up to 4.1% of GDP (4.9% last year) leading to facilitating the process of budget execution (2001).<sup>1</sup>

Public Finance Reform (Law nr.10/1999) resulted in significant changes in the budgetary system, which was reconfigured to eliminate the excessive centralization both in terms of the administration through a single unified budget, and in terms of its execution actual spending.<sup>2</sup>

Professor Gheorghe Manolescu defines Treasury "organization that centralizes and manages all state receipts and payments" Treasury is considered in

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<sup>1</sup> NBR - Annual Reports 2001-2005, p. 12

<sup>2</sup> M. A. Ungureanu – *Organization and management of public finance treasury in a market economy in Romania*, Ed. Conphys, Ramnicu-Valcea, 1996, p. 72

this regard "as the subject non-financial, it is one of the beneficiaries of monetary creation."<sup>1</sup>

According to Professor George Staneanu, Treasury is vested with an important mission, namely, ensuring proper flow of cash receipts and making payments, always watching her efficient management of public money.

Milestone in the reorganization of the Ministry of Finance, both at central and the territory was the date of establishment and organization of public treasury by the Romanian government finances.

Establishment of Public Treasury has become an objective necessity due to the application program of reform and restructuring of the economy, given that public finances were required to amplify the role and functions of management and more efficient use of public sector financial resources.

**The public treasury** represents one of the financial institutions that are most difficult to define. The term "*treasury*" arises in the year 1080 in the Latin language, and its name is derived from the Latin "*thesaurus*" which means thesaurus, treasure, riches. Starting with the XII<sup>th</sup> century this term is used in order to name all the financial resources that are at the sovereign's disposal.

*The treasury* is defined as "a state's office where it is kept and administered the public thesaurus"<sup>2</sup>.

Another definition more close to reality considers that the *treasury* represents "the whole of the financial and money operations, budgetary and extra-budgetary that the state makes in order to procure the necessary financial means and to spend these means"... or "the place where it is kept and administered the state's treasure"<sup>3</sup>.

*The treasury* is considered an operational system within the Ministry of Public Finances, through which, mainly are made the financial and money operations, budgetary and extra-budgetary of the public sector and their accounting, the fiscal control on the cashing on term of the incomes and un the financing of the public institutions expenses, refinancing of the budgetary deficit, launch of the state loan, placement of the liquid assets of the public sector.

**The public treasury** constitutes the financial institution by which the public sector makes the cashing and payment operations and upon which the Ministry of Public Finances exercises the preventive fiscal and financial control.

We consider that the Public Treasury has a special importance because by it, we make the improvement of the information and decision system, using systems for automatic data processing, witch leads to obtaining reliable information regarding the budgetary execution. In this way is ensured daily information relating to the cashing of the incomes, making the expenses, recording the deficit, liquid assets from the treasury's accounts that are useful in making future decisions. So, the Ministry of Public Finances has the necessary tool in order to establish the short and long term strategy in the field of public finances knowing

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<sup>1</sup> Gheorghe Manolescu - *Coin and her hypostasis*, Ed Economica, Bucharest, 1996, p. 53

<sup>2</sup> *Explicative dictionary of the Romanian language*, 2<sup>nd</sup> Edition, Univers enciclopedic, București, 1998.

<sup>3</sup> *Romanian encyclopedic dictionary*, Tome IV, Editura Politică, București, 1996

the whole information related to the development of the execution through the treasury's system.

### **1. Public Treasury Cash type. Accrual Accounting type in the Public Treasury**

The development of multinational companies, the increase of cross border transactions or concentrating political and economic phenomena such as those made by the EU are supporting factors for the processes of convergence and harmonization of accounting.

Accounting literature supports the importance of accounting in decision making by providing business support managerial decision modeling in the form of financial statements.

Accounting information is in terms of economic globalization, one of the main information of any decision making process.

Public treasury is organized and operates on the principle of execution and ensure records of cash receipts and payments of income and expenditure accounts opened on budgets, appropriations and authorizing budgetary classification subdivisions established by the Ministry of Economy and Finance.

Cash flow represents cash in English or cash flow that goes into a company sales (in cash flow) or that are used to purchase money (cash out flow).

Net cash flow means the difference between the money that come (in cash flow) and cash that goes out (cash out flow).

Cash basis accounting is the form of accounting in which revenues are recorded when collected and expenses are recorded when paid.

Cash method of accounting is a system used in the calculation special in tax revenue is not recorded in income (credited) until it has certainly earned and expenses are not recorded until they were paid.

Cash accounting recognizes transactions when it is charged or paid cash.<sup>1</sup>

Cash flow accounting is the accounting system that records only cash flow, cash receipts siplatile the entity, when not generating income or as expenses in financial accounting. This accounting system is used and if the public Treasury.

Absolute amount of the cash flow is used to assess the Treasury's ability to provide public money to finance its operations and its functions to achieve self financing basis.

Although this accounting system is simply does not meet the needs of complex operations performed in reflection of the Treasury, especially arising from its commitments.

#### **Disadvantages** of cash type accounting:

➤ This accounting system is deficient because it does not necessarily reflect the financial position of the Treasury in relation to the financial market and its obligations.

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<sup>1</sup> Oxford Business – *English-Romanian Dictionary*, Bic All Publishing, 2007, p. 10

➤ Cash type accounting applied on long term in the Romanian Treasury Accounting system does no longer meet the qualities of required by an accounting information - credible, comprehensive, comparable, relevant purposes for which it is destined to satisfy - user satisfaction and quality of information according to international standards.

Accrual represents the outstanding financial obligation which is acquired.<sup>1</sup>

Accrual has the meaning accrual financial and account reconciliation.

Accrual method equals accrual accounting, exercise accounting.<sup>2</sup>

Richard Koch show that accrual means that contracted and unpaid expense to be recorded as an expense in the calculation of monthly or quarterly profit and loss.<sup>3</sup>

Under accrual accounting, revenues and expenses are recorded when goods are delivered or when expenses are incurred and not at the time of payment.

Type accrual accounting is that revenues are recognized when they occur and are recognized as expenses occur.

Accrual concept requires that revenue and expenses are recognized as they are earned or incurred, not when money is received or paid. Revenues and expenditures would be highlighted affecting profit and loss account during the period they occur.

With the introduction of IFRS in the European countries have implemented and IPSAS have been a model for public accounting harmonization. The bridge between is the accrual accounting which is "common denominator" of the new construction in public accounting, during the reconsideration of national accounting principles and amplification of the phenomenon of obtaining public funds through capital markets.

**The advantages** of accrual accounting type:

➤ Reduction of information asymmetry between internal and external parties based on two dimensions: microeconomic (generated by the owner of capital) and macroeconomic (by decreasing the locking effect that generates differences between national markets);

➤ Referential oriented decision makers (administrator accountants, authorizing primary);

➤ Improving accounting referential (aims to improve financial information by increasing transparency, the more quality information of the type especially sectoral);

➤ Synergy treasury system (provides increased opportunities for adaptation and reaction to the environment in order to avoid liquidity crisis increases the favorable image of accounting services;

➤ Boosting the performance (provides data to substantiate the financial plans at all levels make better market opportunities by creating a proper system performance).

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<sup>1</sup> Tatiana Chera - *English-Romanian Dictionary*, Business Terms, Codex Publishing, 1999, p. 4

<sup>2</sup> M. Charlmers – *The Oxford Business French Dictionary*, Oxford University Press, 2002, p. 328

<sup>3</sup> R. Koch – *Financial times, Management and Finance Dictionary*, Teora Publishing, 2001, p. 7

Implementation of the Electronic Payment System proved to be a real success. It resulted in reduction of the settlement period and of the time needed for the payment processing in the State's Treasury. If a few months ago, it took 3 to 4 days until the entry of a payment order settled by a commercial bank, now this interval has been reduced to a single day. If a few months ago were admitted in the operative Treasury Timisoara during the peak days about 600 – 700 payment orders, representing payment obligations of the economic agents towards the state budget, local budgets, the state's social security budget, health insurance budget and the unemployment fund budget, for processing of which were needed 6 to 7 hours, at the moment this is done in only a few minutes, being necessary only the solving of the cashing that are to be clarified.

There are improvement possibilities of the Electronic Payment systems, proof being the seven modifications made to the program that makes the Payment order to the Treasury (OPT).

### **Conclusions**

➤ The cash accounting accounting remains an instrument of financial receipts and payments without public record of all active and passive portfolio flows generated by the scale of public sector financial resources.

➤ Coverage of cash managed by the public treasury and cash based accounting is deficient because it does not offer accounting of all financial products offered to settle the debts of budgetary cost accounting does not provide debt and tax debt situation.

➤ Accounting information users are deprived of the possibility of obtaining a complete and high quality information and the possibility of aggregation of indicators of creditworthiness (liquidity, solvency) by which managers decide on the substantiation of fiscal policy.

➤ Cash accounting information system should be completed with those elements that highlight the relationship between public and private, offer image revaluation reserves, revaluation differences and availability of borrowed cash to cover the needs of public.

➤ Accrual type accounting is to discipline the participants in the budget document and to identify a more efficient organization that budgets need resources.

➤ The application of accrual accounting type allows a better tracking of investment expenditure in the form of commitment appropriations or authorization programs.

➤ The current accounting system allows a better armonmizare with European Union practice that apply to large public establishments and local communities.

➤ Throught the applicatioin of accrual accounting can be provided useful information to substantiate the annual budgets and multi-period.

➤ The type accrual accounting cash flow statement is made in concentrated form which is reflected in the cash resulting from operating activities, investment and financial. With his help you can notice the existence of a surplus or a cash deficit which means that the Treasury should publish a policy through

interest or incentive to determine the most reasonable costs of procured resources to meet certain goals.

➤ The use of accrual accounting in the public treasury type is possible the accurate determination of local community involvement in order to achieve the budget act and sound management of liquidity needs in the counties or regions.

➤ The accrual type accounting provides information on the possibility of taking decisions that prolonged periods of time to draw up multi-annual plans and ensuring a better management internally and internationally in correlating internally and European Union budgetary policies.

➤ Accrual accounting is necessary to be effective at the central and local level to provide aggregate information that goes into the dashboard by providing cash accounting information, accounting information is supplemented with information provided by accrual influence mobilization of the management of subordinate staff which has the task of tracking and correcting budgetary debts. The need for continuous improvement of accounting systems and related software.

➤ Application of the single account is creating controversial difficulties in accounting controversial in economic agents accounting.

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