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22 ACCOUNTING AND FINANCE IN THE PUBLIC SECTOR

(Contributed by Karen Van Peursem)

Introduction

The public sector is part of everyday life. Often in the headlines, or on the political page or business pages of the daily news, politicians make decisions that affect our welfare or our pocketbooks. In fact, many daily activities are influenced by a policy which is being carried out within the public sector. The prevailing interest rates are influenced by the decisions made in the Reserve Bank. Central Government budget makers determine how much will be available for distribution to public hospitals, for subsidising the costs of locally-made products, for the roads, and for education.

We cannot escape the influence of the public sector, nor would we probably want to. The government steps in, or *interferes*, with private enterprise in order to complete tasks and provide goods for the public taken as a whole. Such tasks and resources are those which would not be provided without government interference, or which would be provided to only a selected few. That is, government agencies are assigned the task of providing a *public good*. What are these public goods?

- The regulation of monopolistic or oligopolistic industries is a government provided public good because the actions of monopolies could hamper economic or social well being, or result in unfair charges. The governments of Australia and New Zealand regulate, for example, aspects of the power generating industry. They do so because there is little competition to give consumers competitive prices, because a lack of safety standards could result in major catastrophes, and because the absence of power sources could have a significant influence on our economy as a whole. If power sources become unavailable, the entire economy would be crippled. Another example is the regulation of the dairy industry, presumably to create a consortium which is able to negotiate and trade on an international scale for the benefit of the New Zealand farm economy as a whole. Government intervention attempts in this way to compensate for problems which are caused by uncompetitive markets.

- Company and security laws are another means of government regulation. They regulate financial markets, a trend started in the great depression of the 1930s when the Securities and Exchange Commission was formed in the United States to control and provide accountability for share market transactions. The Securities Act 1978 and the Reserve Bank Act of New Zealand 1989 perform equivalent functions in New Zealand. Sadly, some regulations come into place only after a stock market crash or other disaster has occurred. Nonetheless, they serve an important purpose in regulating future transactions. Recently there has been an expansion in laws or amendments to laws which protect the New Zealand consumer, This includes developments in the Commerce Act 1986, the Fair Trading Act 1986, The Companies Act 1993 and the Financial Reporting Act 1993. Overall, statutory law is an important means to protect the public from the risk of market excess or market failure.

- Public sector influence is also felt through taxation. Taxation serves the public coffers and adjustments to it increase or decrease cash flow available to the government. Tax regimes serve an important role. Taxes may be levied to distribute wealth in a way which is seen to be more equitable to society as a whole. For example, taxes on alcohol products may go directly to paying for the costs of road accident victims. Or to encourage altruism, tax benefits may accrue to those who make charitable contributions.

- Sometimes the public sector organisation is established to physically intervene in activities going on in society. Examples include much of the work of the police force, disaster relief services and the military.

- Central government distributes some of the wealth earned by the nation, usually collected through taxes, to those who are in need through hospitals, care facilities or through social welfare programmes.

The organisations which carry out these activities include:

- Government departments and ministries such as customs, education, trade and health departments;

- Territorial local authorities such as states, district councils and cities which provide a multitude of services to the community;

- Local authorities which manage the power boards, universities, airports, and harbours; and

- Various other boards and authorities which conduct a multitude of activities including regulation of housing, marketing and pest control boards, credit unions and friendly societies (see Exhibit 22.1).

Exhibit 22.1 **Public Sector Organisations**

What they do:	Who they are:
Regulate Taxation Physical intervention Redistribute wealth	Departments and Ministries Territorial authorities Local authorities Other boards

Recent trends around the world have led to the sale and privatisation of many government-owned enterprises such as airlines, banks, telephone companies and power boards which, in the current political climate, are seen to operate more efficiently when subject to the vagaries of the market supply and demand. Some people claim that big government has created:

- inefficiencies of excessive regulation;
- expensive spiralling of government expenditure and resulting debt;
- unfair tax systems influenced by lobbies and other special interests;
- inefficiencies caused by bureaucracies in governments generally. (Hawke, 1991, p. 8)

Despite these problems, it is unlikely that the public sector will be allowed to contract much further because the services it performs are vital to the conduct of a responsible society; they serve a public good. The public sector is still, and will probably always be, a substantial employer and producer in many countries.

Is There a Difference?

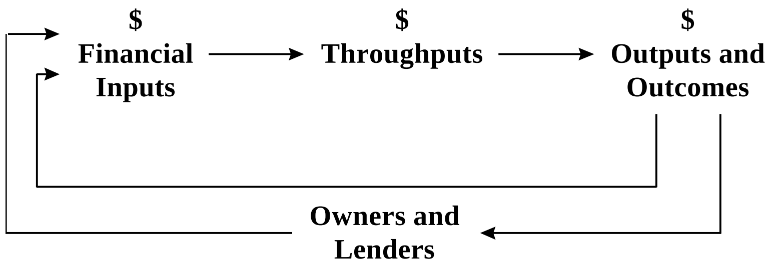
What is so unique about the public sector? How is it different from the private sector and how may those differences influence management problems and behaviour with respect to accounting and finance? Because the public sector organisations are here to carry on activities in which the market fails, public sector managers may well have very different concerns from the sole trader or the corporate CEO. A brief introduction to those differences leads to questions on how those differences may influence the decisions that are made with respect to:

reporting content, financial management, costing systems, financial controls and accounting systems.

Management Objectives

An organisation is an enterprise which is fuelled by finance, operated by the labour market and which creates an outcome product or service which is either sold or distributed in some other way. For a private sector organisation, the flow of resources through this operating cycle can be represented by arrows in the diagram in Exhibit 22.2.

Exhibit 22.2 **Private Sector Business Resource Flows**



Inputs are the capital finance which is, in the first instance, provided by owner contributions, share issue or borrowing. This fuels the service provision activity or product manufacturing activity also referred to as throughput. Throughput and inputs can usually be expressed in monetary terms; that is, they are the dollars contributed and the cost of land, labour and capital. The output or outcome of the activity is the distribution (and the effect of distribution respectively) of products or services which, conveniently, is also measured in dollars (sales).

Finally, the difference between the revenue earned and the costs which have been associated with that revenue, or the profit, is ploughed back into the business or is distributed to the owners and lenders who contributed the finance in the first place. The cycle continues. In order to attract continuing or growing capital, potential finance sources will probably be influenced by the rates of return they or others have received from this business and ultimately will be concerned with the net present value of their contributions.

Reporting for these users' interests calls for a focus on the financial position (the balance sheet) or the differences between inputs and outputs (profit). Management reports are concerned with costs, efficiencies and throughput.

There are some assumptions made here, however. These are assumptions which may apply to the private sector but not to the public sector. Because those differences exist they will have a major impact on reporting and accounting systems. Questions about the relevance of certain information which is commonly produced for a private sector business must be addressed.

Profitability and Capital Appreciation

It is usually assumed that management objectives include capital appreciation, liquidity and profitability. Such assumptions are not unreasonable in most private sector businesses today; at least not from the perspective of the owners. Information on resource flow, such as the income statement and balance sheet, (Exhibit 22.2) is quite useful because all of the information required for reports on capital appreciation and profitability would appear.

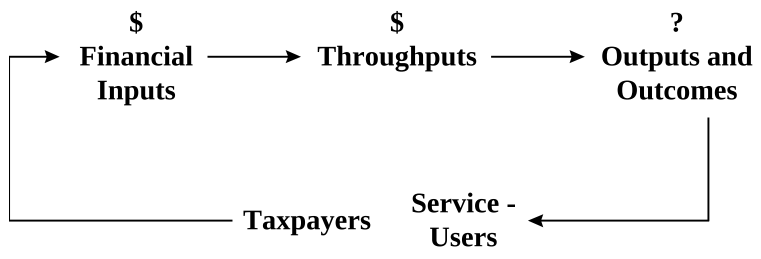
Assume that the main purpose of a business is continued profitability: as long as the difference between costs and revenue can be measured and reported, then the responsibility to be accountable to outside parties for management behaviour will be fulfilled. Further details of the process need not be disclosed. If a management goal is to use resources to serve all of the people with postal services, a goal that would be appropriate for a (public sector) postal service, then the simple diagram of financial resource activity does not provide a sufficient amount or type of information.

Reward for Investors

Another assumption is that those who finance the enterprise also benefit from its output. This is represented by the line going from 'outputs' to 'inputs' in Exhibit 22.2. That is certainly true with respect to owners and lenders who share in the achievements of the firm by receiving interest, dividends or drawings. But this is another assumption that does not hold true for public sector organisations. Taxpayers funding public health care may or may not receive the benefit of that service. Students attending university have paid only a portion of their educational costs. People who use the highways on a daily basis may pay more or less or not at all for user services or road services.

It is very difficult to directly reward those who contribute to the public system; in fact, the public sector in its capacity to distribute and regulate is not designed to do so. So the resource flow is not so simple. A comparable illustration for the public sector is suggested by Exhibit 22.3. You will note that there is a broken line between outputs and outcomes and financial inputs, indicating that those who benefit from the public sector are not necessarily the same as those who contribute to it.

Exhibit 22.3 **Public Sector Organisation Resource Flows**



Monetary Unit Assumption
Another assumption is that the monetary unit is useful and available to measure the flow of resources in, through and out of operations. This may be appropriate for a business which has ‘sales’ to represent the value of its output. But if the output is non-objective and non-monetary such as ‘quality of service’ or ‘improved knowledge’ then it is difficult to evaluate the economy, efficiency or effectiveness of operations. For example, how does one evaluate whether or not an infusion of capital creates or even relates to better qualified graduates in a school system? The monetary unit assumption is useful in the private sector model; it is questionable, however, whether it serves public sector accountability as well.

Entity Assumption
Finally, the private sector model of reporting for finance and costs draws on the entity assumption. The sole trader’s activities are to be separated from the owner’s personal activities; the partners from the partnership; and shareholders’ interests in a company from the shareowners’ private homes and other investments. Although the private company seems independent and distinct from its owners, this is often not the case. Consider, for example, the difficulty in separating one business entity from another where common ownership of majority holdings exists. The same owners make decisions for both businesses and it would not be surprising to find that such decisions are interdependent.

Now consider the public sector. Is an entity the city which operates an aquatic facility and city services? Or is the entity the aquatic centre alone? The decisions about the aquatic centre and about city roads would be quite different depending upon the entity viewpoint. Perhaps all the two share in common is that they are funded by the same general fund account. This would be like consolidating the reports for two businesses which are operated for different purposes and which are owned by different people, because they both have the same client!

In fact, the government ‘entity’ could include all businesses that are funded by the government; or the entity could be all organisations which are under the authority of elected representatives; or the entity could be all organisations which are run under the management of one individual. If applying the entity principle is a challenge to accounting for big business, it is more so for the public sector. The New Zealand practice incorporates a wide array of departments and agencies in its governmental financial statements, but excludes others such as State Owned Enterprises.

So it is difficult to accept many common accounting assumptions and principles in the public sector: the assumptions that profitability or capital appreciation is a goal; that capital appreciation improves the chances of access to further funding; that the monetary unit is useful in measuring all of the flow of resources; and, finally, that the entity principle will apply, are all difficult to accept.

Next, consider how these differences may influence the development of reports that will be useful for internal and external purposes and the systems to support them.

Financial Statements: Accountability Reporting

Financial statements for public sector entities in the United Kingdom are based on private sector standards with some specific exceptions. Until recently, the New Zealand public sector was to produce statements according to a 1987 standard (and related conceptual statement) designed for the public sector alone. It called for the production of the standard financial statements in addition to statements disclosing management objectives and performance relative to those objectives. Now, with some exceptions, public sector reports are to resemble private sector reports using common standards. For many years U.S. public sector organisations have reported much of their operations using the cash (not accrual) basis of accounting. Several countries, such as Australia and New Zealand, have developed a conceptual framework for financial accounting which encompasses both public and private sectors.

Why is there so much variation in reporting for this sector? Perhaps this is because there are so many differences in the way governments operate; or perhaps it is because modelling resource movements where the traditional assumptions don't hold is so difficult, and no one can agree. What are some of these difficulties?

One problem commonly referred to is that of valuing public assets. Historical cost is meaningless and where no resale or replacement value can be found to represent their value. How is value placed on a road system which was constructed with 1950 dollars? The question also comes up as to whether these costs should be on the balance sheet at all - since many are not legally owned by the public sector entity (say, the local government) but only used and/or maintained by them. Roads are, again, a good example. Do they have future value to the entity as assets should? They may only represent a future cash drain to maintain them. These assets which do not have a reasonably determinable resale value and which have a continuing value to the community are referred to as *community* or *infrastructural* assets.

Even if infrastructural assets are capitalised, should they be depreciated? Maintenance costs may keep them at or close to their original condition. How does one 'match' costs over the related 'revenue' when they may not earn revenue?

Another question to be asked is whether an income statement is relevant at all. Without a profitability motive, without a relationship between revenue and expenses, can such a statement have meaning for anyone? Perhaps public sector entities should all try to achieve return on capital; however, if this is the case, they might as well be within the private sector!

In a similar light, it is highly unlikely that the profit and loss statements for a public sector entity would be useful because of problems with the revenue recognition and matching principles of accounting. It is more likely that a statement of objectives and their performance, and a statement showing how resources were attained and used, would be useful in the public sector. Service performance objectives and results are reported in non-financial terms, such as quantities of goods and services provided. Financial results and objectives are reported in financial terms such as financial surplus. Where service performance objectives predominate, entities report primarily in non-financial terms. In the public sector, many entities have both service performance objectives and performance objectives. (NZSA, 1996, SC, para. 3.2) The New Zealand conceptual framework thus gives recognition to this idea, and in practice, income statements may reflect tax revenue and operating balances instead of sales and net income as is pictured in Exhibit 22.4.

Exhibit 22.4

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 30 JUNE 19X5
(For activities funded on an accrual basis for outputs produced)

REVENUE		EXPENSES	
	$		$
Direct taxation	8000	Social Services	6500
Indirect taxation	6000	Education	2500
Other tax sources	300	Health	5500
Total from taxation	14300	Administration	800
		Foreign relations	100
Earned in operations		Regulation costs	50
Investment income	100		
Sales of services	1000	Total expenses	15450
Total from oper'ons	1100		
Total Revenue	15400	OPERATING BALANCE	$ (50)

Financial Management

> "The financial management of not-for-profit organisations [including the public sector] involves the acquisition, allocation, and spending control of financial resources and the financing of assets in order to provide services demanded by a segment of the public." (Braswell, Fortin and Osteryoung, 1984, p. 10-11)

Financial management in the public sector might apply many of the same principles used in the private sector. Cash, sales and capital budgets are prepared. Criteria for borrowing in the short and long term would in both sectors be with the aim of maximising the return on investment. Although not utilised everywhere, municipal bonds or debentures are a common way of raising capital in some countries.

Capital charge arguments, which revolve around placing an appropriate cost of capital on departments, are gaining ground both in the public and private sectors; the difference may be that public sector entities have the use of capital without necessarily legal ownership of it.

Finance from ownership interests is different, however. All of the public are 'owners' in a sense - an ownership interest which cannot be lost by moving to another location. Tax revenue is the primary source of capital for many entities, not share issue, and for the central government there is of course the option to make its own money! Since tax impositions are not only used to create funding (they are also used to offset social imbalances), then the development of an acceptable tax regime can be a very intricate, and of course a political process. Some of the things to be considered when developing or changing a tax regime are:

- The need for funds to fulfil government objectives.
- The ability of the community to pay taxes.
- The impact which taxes may have on businesses and personal lives.
- Whether and to what extent it is acceptable to tax some activities and not tax others.
- The impact of taxing on the economy or social life of a community or country as a whole.

These are decisions which are made through the political process, not by the managers of a public sector entity. Managers may therefore have very little control over the timing or amount of their finance base - a lack of control which reduces some of the flexibility which a business owner would have.

It is also difficult to decide upon an appropriate discount rate to use for determining the present value of future cash flows (used for capital budgeting and product assessment). To a government, is that value equal to the rate at which they could borrow themselves? If so, it could be set at the government bond yield rate. Or should the opportunity cost of investing government assets elsewhere be used? If so, that is difficult to determine since the alternative use of public resources may yield no (monetary) return at all! Generally, the government bond rate is used, but conceptually it may only be a compromise between alternative views.

Role of the Budget

The budget has been referred to earlier. Although standard accounting practices and principles may not vary for the public sector, the purpose for which that budget was developed, and the process to do so, are often quite different.

Budgeting in the private sector is primarily used to plan and forecast future cash flows. Recalling the illustration in Exhibit 22.3, however, note that the revenues to a public sector organisation are unrelated to the costs incurred to produce them. In order to attain some control over spending, cash budgets are legally authorised by legislators, and the budgeted amounts are imposed upon the public sector managers. Note that the managers would have little discretionary ability with respect to tax-generated revenue; that is, they must spend in accordance with the budget limitations.

Because this imperative exists, then public sector managers are usually required to report (internally and externally) on the extent to which actual spending exceeds or is within budget. If the budget granted (also called an *appropriation*) is a cash budget, it is common practice to show budget comparisons to expenditures on a cash flow basis (see Exhibit 22.5). If appropriations are made on the accrual basis, using the matching concept to record expenditures (such as is shown in Exhibit 22.4) may be more appropriate. Examples of cash flow satatments useful for budget comparisons, and similar to those now prepared for elements of the New Zealand public sector, are shown in Exhibit 22.5.

Exhibit 22.5

BUDGET ESTIMATES
FOR THE YEAR ENDED 30.6.X5
(For activities funded on a cash basis)

BUDGETED COSTS

	Budget	Actual
REVENUE	$35000	$35000
EXPENSES		
Personnel	27000	27000
Operating	6000	5950
Other	2000	2000
Total Exp.	35000	34950
Oper. Surplus	0	50

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30.6.X5
(Showing movements in cash)

CASH FLOWS FROM (TO):

	Budget	Actual
Operations	(3000)	(3500)
Invest. activities	700	600
Finan. activities	2800	2850
Net flows from (to)	500	50
Opening cash	40	40
Closing Balance	540	90

Budget reports for the public sector represent mandatory and legally enforceable expenditures. Unlike the private sector budgets, which are management's plans, forecasts and perhaps financial hopes for the future, public sector budgets are externally determined and fixed. Therefore, their disclosure, and comparisons to actual expenditures, is important to ensure that the public sector organisation is in compliance with public policy and law.

Cost Accounting

Many of the costing principles and techniques apply to the public sector as well as to the private sector. This is because the concern with costs and efficiencies would be no less important (if harder to achieve) in the public sector.

Techniques such as marginal costing, break even analysis, budget variance analysis and full-costing apply here as public sector accountants attempt to choose the most efficient options possible within a range of possible alternatives. It should be noted, however, that some options - such as failing to perform an activity which is required by law but which is not cost effective - are not available to the public sector manager.

Accounting Information Systems

Finally, consideration of the accounting systems which must be designed to generate the information relevant to reporting for the public sector entities must be taken. What are the differences between the two?

Organisations that fall within the New Zealand public sector are called upon to measure a variety of accomplishments including the provision of services and the distribution of public funds. Accounting systems must also be designed to produce reports that comply with the law; so, for example, reports of budgets, inputs, throughput, and outputs may have to be disclosed in a particular format for the Ministry in charge. The best type of accounting system will, therefore produce information that is:

Reliable
Reliable information refers to the idea that information is obtained from objective sources to the extent possible, and that it is reasonably representative of an economic or social activity. Reliability is more likely to occur if:

1. Policy and organisational objectives have been carefully developed; and
2. Internal controls over information are in place.

Developing organisational objectives, and measuring their accomplishment, are important toward determining whether the organisation has been effective in carrying out their public mandate. the ideas of *effectiveness*, along with *economy*, *efficiency* and *equity* are important ones for the public sector, and their measure is the challenge for the developers of information systems.

Internal controls include system features that prevent or detect errors that may occor in:

1. gathering information;
2. inputting information into, for example, a computer or network data base;
3. processing information, that is, adding and transferring information from one data base to another, or allocating costs to various departments and services;
4. storing information in hard copy or computer files;
5. protecting information from unauthorised access

Controls include such features as double checking the calculations performed, ensuring that all records prepared are recorded and physically securing data files. They are important toward ensuring the reliability of information produced.

Relevant
Relevant information refers to that which is useful for management or external user purposes. Management would likely be interested in:

1. an organisation's conformance with budget;
2. how overheads and other costs are allocated to their own, and other, departments;
3. cash flow information;
4. capital budgeting information;
5. business risk, financial risk, and operating risk;
6. outputs and outcomes produced; and
7. efficiencies.

External users would most likely be interested in:

1. services provided, and plans for future services;
2. the financial position and solvency of the entity;
3. government policies which could influence the organisation;
4. the impact of the services or goods provided; and
5. how services or goods have been distributed to the population at large.

Timely
Information must be produced and disclosed in a reasonable amount of time, or it is less likely to be valuable for making decisions or for accountability purposes. For this reason, the new company law in New Zealand requires that financial reports be made available no later than 5 months after the balance date; and managers usually require internal information much earlier than this. Timeliness, along with other elements is seen to be an important characteristic of relevant information by those who have constructed the conceptual framework to the New Zealand accounting standards.

Comparable
Comparable information is important for identifying trends and for assessing an organisation or department relative to its peers. The call for comparative information implies that the accounting system must be able to store and retrieve historical and external information, and incorporate it into the information provided to users.

Although one finds much variety in practice, it is probably best to keep in mind that whatever system is encountered, the principles of reliability, relevance, timeliness, and comparability are important toward an effective system of information. With respect to the public sector, a consideration of law, policy, social objectives and non-financial outcomes are as important as financial measures in developing an accounting information system of benefit to both management and the public.

Summary

Accounting and financial management in the public sector is unique because management objectives and the power given to top-level managers vary from their private sector counterparts. Disclosures which are useful in the private sector are not always useful for the public sector accountee. In contrast, some disclosures optional to a private sector business (such as the cash budget) may be required in the public sector. Some of the accounting assumptions and principles are of questionable use in the public sector. This chapter has considered the use of: the monetary unit assumption; historical cost; the entity assumption; and the revenue recognition and matching principles for public sector entities. These differences have an impact both on the budgeting and the accounting information systems.

Accounting and finance for the public sector is a fast-changing arena as financial managers and accountants try to keep up with the many changes which are now occurring in government. There are more questions than answers with respect to accounting and finance in this sector, and it may take some time creativity to come up with the best solutions possible for this important group of organisations.

Glossary of Key Terms

Appropriation
An authorisation granted by an elected body to incur liabilities for specific purposes.

Capital Charge
Costs deriving from the use of capital.

Economy
Obtaining inputs of the right quality at the least price.

Effectiveness
The extent to which output meets management objectives or consumer demand.

Efficiency
Production of output at the least cost.

Equity
The way in which resources are distributed among beneficiaries or information is provided to the public.

Estimated Revenue
The amount of revenue estimated to accrue during a future period of time.

Expenditures
Where the accounts are kept on the cash basis, expenditures represent cash disbursements for authorised purposes.

Funds
A fiscal and accounting entity with a self-balancing set of accounts.

Fund Accounting
Recording transactions for a fiscal and accounting entity in a self-balancing set of accounts.

Infrastructural Assets
Assets associated with the public sector which do not have a determinable useful life, which provide a social service, and which are usually large and non-marketable. Examples include roads, historic buildings and street lighting systems. (Similar to Community Assets which are also used by the community at large.)

Input
Land, labour and capital employed or consumed in the production or service delivery process.

Outcome
The impacts on the community resulting from the operations of an entity or enterprise.

Output
Any product produced, service delivered or result achieved.

Public Good
A product or service which both serves and is available to the broad public.

Throughputs
The activities and costs associated with converting inputs into outputs.

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Questions

22.1

Name a government entity which has as a function:

a. The regulation of the behaviour or activities of businesses or individuals.
b. The provision of products, services or dollars to those who require it, but by law do not have to pay for it.
c. The provision of a public good.
d. The raising of finance.

For each of the entities named, describe the damage that could occur if these products or services were not available.

22.2

Name and describe five public sector entities in your community. Discuss how each may either regulate industry, redistribute wealth, encourage or discourage individual behaviour, or provide a public good.

22.3

What are inputs, throughputs and outputs? What are they for an automobile manufacturing firm? For a harbour board authority? For the Inland Revenue Department?

22.4

Describe two benefits that may be lost by privatising the national postal service. Describe two benefits that may be gained.

22.5

How might you account for the decline in the public sector over recent years?

22.6

Why may profitability be less important in a public sector organisation?

22.7

Hospital A is privately funded by an insurance company and services patients who are premium-paying members. Hospital B is a public hospital which is financed from the public vote and serves anyone who needs help. Explain how and why (if at all) the following accounting activities would differ for the two hospitals:

a. Budget preparation.
b. Financial reporting.

22.8

Discuss why it is important to reflect on the economy, efficiency and effectiveness of a public sector organisation where in the private sector we discuss capital appreciation, solvency and profitability.

22.9

If you are analysing city council operations, what financial ratios may you use and why?

22.10

Consider whether the following would be one, several or only a part of a larger accounting entity:

a. The public account: a cash account that records the receipts from and disbursements to tax-supported activities.
b. A district council which maintains local roads, sewer systems, and lighting.
c. A public school system.

22.11

Name what you think are community or infrastructural assets for:

a. A city.
b. A government-owned telephone company.

22.12

A district council maintains the following infrastructural assets: roads, sewer lines and systems and public parks. How would you value those assets? At historical cost? At replacement cost? At resale value? Or? Why?

22.13

A district council maintains the roads and buildings for road repair and equipment. The roads are not included on the balance sheet but the costs to maintain them are considered expenses. Buildings are included on the Balance Sheet and have a useful life of 20 years and the financing on them will be paid off in ten years from road user charges. Would you depreciate these assets? How? Over what time period? Justify your answer.

22.14

Central government has decided to impose a capital charge on city councils for the use of government-owned infrastructural assets. What impact will this have on the Income Statement?

22.15

Estimated cash revenues for a government department at the beginning of the year were \$250,000,000. Actual expenditures for that year were \$248,100,000. What does that difference between the two represent?

22.16

It is September 1995. The Parliament has granted a government department $35,000,000 to cover 5000 social welfare beneficiaries. It is anticipated that of that, $2,000,000 will be due to salaries to staff and $3,000,000 will cover other costs of operations. The remainder is to be distributed. Prepare a statement of operations assuming that they kept to budget. How might a manager use this report? A politician? A welfare recipient?

22.17

In 1993, the budget suggested in 22.16 was followed except 5500 social welfare beneficiaries applied and received the average benefit. How would you disclose this? What further explanation might you add and why?

22.18

A government department is financed by tax revenues. You are the accountant and must decide whether to use the cash basis of accounting or the accrual basis of accounting. Which would you choose and why?

22.19

You are the financial manager for a public health institution. You are required to provide services to anyone requiring service in the accident and emergency ward. Unfortunately, your ward has not been able to provide quality service to all of those who come in and that results in a number of people with serious (and not-so-serious) conditions waiting for service. You have been given $250,000 per year to remedy the problem. You consider five alternatives.

1. You may increase the ward nursing staff by 5. This would provide you with the staff necessary to handle minor problems or provide first aid to more serious victims. They would also be able to provide more support to surgical medical staff.

2. You could convince your senior manager to allocate departmental overheads on a basis which reduces your costs.

3. You can defer capital investment, invest the money in short term investments, and have more for the purchase of equipment next year.

4. You can close the emergency ward, and use the funds to improve care in other departments.

5. You can report on the accrual basis, over spend the difference as accounts receivable-government.

Required:

How will the management reports and external reports differ for each alternative? What impression does each now give to the reader?

22.20

Imagine that you are the CEO of a recently-privatised government enterprise. The enterprise is engaged in the business of providing cable service to residents around the country. The most recent Balance Sheet is provided below.

Balance Sheet at 31 March 19XX

Current Assets	
Cash in Bank	1,255
Accounts Receivable	301,990
Prepaid Expenses	960
	$304,205
Current Liabilities	
Revenues received in advance	1,300
Fund or Equity Balance	302,905
	$304,205

You are now required to compete with private firms and none of your funds will be provided from government coffers. All revenues must be earned from service charges. 10,000,000 shares were issued for cash at par ($2 per share) in order to provide beginning capital. Cable lines (previously owned by the government but used by your enterprise) were sold to you for $2,150,000 cash and equipment and other fixed assets were sold to you also by the government for $15,350,000 cash.

Required:

a. What does the Balance Sheet look like after privatisation?
b. Describe what your management objectives may be prior to and after privatisation.
c. Describe the ways in which privatisation may have an effect on your accounting systems, on your capital budgeting decisions and on your breakeven analysis.