

REFORM OF ACCOUNTING RECORD AND FINANCIAL REPORTING IN THE BUDGETARY SYSTEM

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***Abstract.** In this article there was researched the budget classification reform process in the Republic of Moldova, considering it an important tool in the development and execution of the budget, as well as in the accounts of public institutions. It is investigated the unification process of the four accounts in one single integrated, which corresponds to European standards and modern financial reporting. Budget classification changes are researched and especially in the economic classification of budget spending, which unifies codes with unique integrated plan accounts. We present a study of transition from economic classification of expenditures from the old system to the economic classification of expenditures in the new system.*

***Keywords:** budgetary classification, organizational, functional and economic classification of expenditures, program and sources classification, single plan of accounts, income, expenses.*

***JEL Classification:** M10.*

1. Introduction

Accounting reform in Moldova runs parallel with the reform of budget classification. The aim of this reform is to create a modern, efficient and sustainable financial management system based on effective tools and mechanisms, designed at European standards. The main objective is to establish a unique mechanism of accounting and financial reporting to authorities / budgetary institutions.

Budgetary classification is a tool (a mechanism) of systematization, monitoring and control to achieve revenues and required budgetary expenses which impose an order in grouping the revenue by sources and budget allocations by category of expenditures.

In the Republic of Moldova, the budget classification was adopted by Parliament Decision no. 969-XIII from July 24, 1996 and has been applied since the preparatory work on the draft budget for 1997. After that followed changes and additions. The amended budget classification appears in the second edition in 1999. This edition with some changes and additions was maintained as a necessary tool for establishing and implementing the budget by 2007. By order of the Ministry of Finance of Moldova from 29.12.2006, 'Under provisions of article 6 of the Moldovan Parliament Decision nr. 969-XIII of July 24, 1996 on budget classification and taking into account many amendments made, the budget classification was introduced as follows:

- 1) Classification of budget revenues;
- 2) Functional classification of budget expenditures;
- 3) Organizational classification of budgetary expenditure;
- 4) Economic classification of expenditures.

2. General characteristics of the budget classification

We note that according to the budget classification (available until 01.01.2016), budget revenues are classified into four main chapters, each having a meaningful code, as follows:

- I. Current income - code 100
- 1.1. Income tax (110);

- 1.2. Non-tax revenue (120).
- II. Income from capital operations – code 200;
- III. Transfers – code 300;
- IV. Grants – code 400.

The expenditure of budgetary system is synthesized using three components:

- Functional classification of the budgetary expenditures;
- Organizational classification of budgetary expenditures;
- Economic classification of budgetary expenditures.

These three types are related and complement each other. Classification of budgetary expenditures by functions allows tracking the budgetary expenditures in various aspects, their dynamic over different periods of time. Also allow to carry out government spending analysis and forecasting in the medium term. By functional criteria, expenses are grouped according to the strategic objectives of the government, with the following structure:

- State functions (general state services, foreign relations, national defense, justice, public order and national security);
- Social functions (education, science and innovation, healthcare, insurance and social assistance);
- Economic functions (agriculture, industry and construction, transport and road facilities, fuel and energy complex, etc.);
- Tutored functions (communal household and the operated household fund) and other functions of national interest that are financed from the budget etc.

The content of the budgetary expenditure classification

Functional classification of budget expenditures has two segments: 1) code of the main group and 2) the group code which is subordinate to the main group. Functional classification that is available contains 20 main groups. In the process of reforming the budgetary classification, this classification will be reduced by the number of the main groups, possibly up to 10 main groups.

Organizational classification of budgetary expenditures indicates the beneficiaries of budgetary funds, including central and local public authorities (A). Similarly are indicated the types of institutions, organizations and measures financed from the budget (B).

Economic classification of budget expenditures represents the public spending grouping of all levels according to their economic content/nature. The main segments of the economic classification of the budgetary expenditures are: 1) the code of the article; 2) the paragraph code.

Economic classification subdivides budgetary expenses in the following main groups: (1) Current expenses; (2) Capital expenditures; (5) The purchase of shares; (6) Net lending. **Current expenditures are subdivided** into the following groups: (1.1.) Expenditure on goods and services; (1.2.) Payment of interest; (1.3.) Current transfers; (1.9.) Current transfers for implementation of investment projects.

Capital expenditures are subdivided into the following groups: (2.4.) Capital investments and repairs; (2.5.) Creation of state reserves; (2.6.) Purchase of land and intangible assets; (2.7.) Capital transfers; (2.9.) Capital transfers for investment in projects implementation. **The purchase of shares includes** a group: (5.1.) Purchase of shares. This

article reflects the state's expenses for the purchase of shares. **Net lending group include:** (6.1.) Net lending¹.

3. The role of budgetary classification

Budgetary classification as a tool to synthesize and control over revenues and expenditures has an important role in the public sector, namely:

1. Budgetary classification enables comparison and accurate reflection of income and expenditure;
2. Budgetary classification provides systematic grouping of income and expenditure;
3. Budgetary classification allows having a transparent budget;
4. Budgetary classification is mandatory in the development and execution of the budget;
5. Budgetary classification is related to banking statistics, referring to the budget deficit, including state securities;
6. On the basis of budgetary classification can be used data to form the balance of payments, national accounts statistics;
7. Budgetary classification creates favorable conditions for ensuring the quality of the budgetary transparency;
8. Budgetary classification ensures comparability of macro-financial indices for budgetary forecasts;
9. Budgetary classification ensures the development and execution of the budget in line with the Medium Term Expenditure Framework and the Medium Term Budgetary Framework.

4. Reform of budgetary classification and accounting record in the public institutions

Since 2010 the Moldovan Ministry of Finance is working on a new project for developing the budget classification. The main objective is to establish a standard to compare international classifications established by the UN and presented in the GFS Manual from 2001. According to the new draft of budgetary classification this is composed of five segments: 1) organizational classification, 2) functional classification, 3) classification of programs, 4) economic classification and 5) classification of sources.

This group is more specific and more accurately expresses the essence of each segment as follows:

- Organizational classification answers the question who manages the budgetary means. For example: Ministry of Health, School No. 1 from Telenesti etc.
- Functional classification indicates in which sector will be used the money, or that function is fulfilled by the state budgetary expenditures. For example: social protection, education etc.
- Classification of programs answer the question what result is intended to be obtained due to the use of budgetary funds. For example: agricultural development, development of transport and road facilities etc.

¹ What is net lending? This article (611 "net lending") refers to loans given to another level budgets minus payments; as it related to loans for non-financial business and other beneficiaries of loans minus payments; the same can be related to amounts from the budget and refunded at certain budget as result of controls that are used contrary to their purpose and as well amounts unused from previous years, etc. (receivables from previous years, cashed the following year). Also refers to net lending and loans to households with the pawning amounts of precious metals and gems in Lombard Service of the State Treasury: this sum is written with the sign (+); the amounts of loans repaid by the population with restitution of pawn articles of precious metals and gems in Lombard Service of the State Treasury: sum is written with the sign (-).

- Economic classification answers the question why are used the money or their economic nature: for wages (salaries), payment of electricity, VAT etc.
- Classification of sources indicates where the money comes, what budget receives budgetary resources, who are the donors in case of external funding.

We believe that all segments have their place in the budgetary classification, but for the elaboration of an institution budget are very important to know the budgetary and economic classification using cost allocations after their economic content.

The goals of the new budgetary classification

Organizational classification aims accounting and budget management and answer the question: Who?

Functional classification can be used for the purpose of historical analysis (dynamic) and strategic policy analysis of government economic and social development for certain periods and answer the question: Which sector?

Classification of programs is used for policy formulation, programs adoption and identify performance indicators and their accounting and answers the question: Why?

Economic classifications aim formation of statistical reports and aggregate controls and answer the question: What for?

Classification of sources aims to manage the budget by sources of income and financing expenses from budgetary sources and answer the question: Where does money come?

5. Plan of integrated accounts in the context of reform

Integrated plan of accounts (order no. 66 from 15.05.2015) include the following accounts:

1. Plan of accounts for accounting evidence in the budgetary institutions (order no. 93 from 19.07.2010);
2. Plan of accounts for accounting evidence on cash execution of the national public budget through the treasury system (order no. 98 from 28.11.2005);
3. Plan of accounts for accounting evidence concerning rayon budget implementation for financed departments (order no. 51 from 16.08.2004);
4. Plan of accounts for accounting evidence in mayoralities of the villages (communes), cities (order no. 94 from 19.07.2010).

Thus, until January 1, 2016 we had four charts of accounts. From January 1, 2016 they were integrated in a Single Integrated Plan of Accounts.

The concept of single plan of accounts means that 4 charts of accounts will be merged into one and will be used by all budgetary institutions. It is important to understand that a single institution will not need all the unique chart of accounts, but will use a limited number of items. As each institution applies today only one of these four charts of accounts, the concrete budget institution from now on will use an own segment from the unique plan of accounts.

Given the unique AP and BC are developed in compliance with international requirements and standards, reporting to international bodies will be simplified considerably and will not require additional algorithms and transition tables.

In the context of reform the unique account plan with that of economic classification and can be presented as follows:

Table no. 1. The Unique Account Plan (AP) and Economic Classification

Name	Economic Classification / Plan of integrated account
1. Revenues	<u>1 / 1</u>
2. Expenses	<u>2 / 2</u>
3. Non-financial assets	<u>3 / 3</u>
4. Financial assets	<u>4 / 4</u>
5. Debts	<u>5 / 5</u>
6. Results	<u>/ 6</u>
Off-balance sheet accounts	<u>/ 7</u>

Structure of the plan of accounts

Level I	Level II	Level III	Level IV	Level V	Level VI
Class (Type)					
	Subclass (Category)				
		Group of accounts (Chapter)			
			Account (Article)		
				Sub-level I (Paragraph)	
					Sub-level II (Element)

- Class (Type) – group of major economic operations on implementing fiscal policy;
- Subclass (Category) – group of operations to increase or reduce the value of the assets and operations of public sector assets and liabilities;
- Group of accounts (Chapter) – group of economic articles by generalizing property type, form of organization, status of natural and legal person, as well as periodicity generalization that characterizes economic operations, the type of assets and liabilities.
- Account (Article) – a division of economic classification that generalizes paragraphs following general principles;
- Sub-level I (Paragraph) – group of items by nature of economic transactions for increase or decrease the elements.
- Sub-level II (Element) – the basic unit for conducting budget expenditures from economic point.

Example of amending the Economic Classification in the new system compared to the old system

Old system	New system
5 numbers Example: income tax from salary 111 01	6 numbers Income tax withheld from wages 111 110 etc.

Reform in the accounts evidence includes all budgetary institutions, taking into account the specificity of each, of the income and expenditures structure.

5. Conclusions

The method of reporting is changed. In section 4 "Accounting evidence and budget reporting" from the Law no. 181 were introduced new articles related to reporting, namely: MF prepares monthly reports on budget execution which it manages. Annual reports on state budget execution is drafted by the budget administrator and submit to the Government and then to Parliament for approval. Authorities / institutions prepare and submit budget reports based on Accounting Law.

With effect from 01.01.2016 will be used in the public sector mandatory Budget classification and Unique Plan of Accounts.

Prohibition of advance payment by the institutions / authorities budget, financed from the state budget, individuals and businesses to purchase goods, services and works, except construction and repairs, whose value does not exceed 10 percent of the annual limit set on the lens in order to organize processes and procurement of materials and equipment.

Manage the UTA (the unique treasury account) of financial funds received from the budgets of the national public budget by self-managed public institutions and their operation through the treasury system according to specific rules. Was excluded the account 07 "Items of little value and short-term". Were excluded the account 24 "funds and means of special purpose"; account 25 "fund of fixed assets"; account 26 "fund of small value and short term"; account 27 "fund of the state material reserves."

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