

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

History has it that the concept of accountability of public funds dates back to the history of ancient Greece. As old as theory is, it would not be erroneous to say that the idea has been equally lost to antiquity although not much is known about it, this makes the subject, government accounting to remain a myth.

Accounting in the public sector has received such a wide attention from scholars that the field of public sector accounting seems to be neglected.

However, there is general awareness all over the world of the need to pay greater attention to the development of government accounting and financial control. The reason is obvious, government, in most, if not all nations constitute the largest single business entity in many places, the core of the economy. Government in any society is basically for maintaining law and order. With changes and the complete nature of the society, government responsibility has automatically changed from the role of maintaining law and order to business like nature in the modern era. The enormous activities of government, equally call for enlarged government accounting in order to accommodate the immense task. As a result of this development, the traditional cash procedures of accounting can hardly meet the demands of reasonable accounting for modern government in providing necessary services or information. Therefore, there is need for government accounting to be dynamic in order to accommodate both the fundamental roles and the developments.

Government accounting is the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government in aggregate and in detail, reflecting all transactions involving the receipts, transfer and disposition of government funds and property. The purpose are to demonstrate the propriety of transactions and their conformity with established rules to give evidence of accountability for the stewardship of government resources and to provide useful

information for the good control and efficient management of government operation. Financial management in the public services as can be observed has failed to encourage and promote the efficient utilization of public funds or serve as effective basis for planning and decision making as well as to ensure proper accountability. Besides, it does not mean that financial irregularities being detected in public sector at large is basically based on traditional cash procedure of accounting but it does arouse a question whether the modern system of accounting will make both modern management and financial management viable.

### **STATEMENT OF THE PROBLEM**

The problem of this research is to identify these weaknesses and limitations inherent in the cash accounting system of the public sector (in relation to the accounting system of the sample ministry).

This is with a view to propose means of eliminating them completely or at least reducing them to the barest minimum. Put in question form, what are those weaknesses and limitation that militates against adequate and efficient accounting system and financial reporting in the public sector and how can they be eliminated?

Some of these problem witnessed in the public sector includes: the lack of accountability and abuse of delegated authority by the officers in authority, fraud and misappropriation of government funds, as well as lack of expertise and business acumen on the part of those officers. Due to the fact that government operation have been termed “Non-profit oriented operations”, there is no pressure on the part of these government officers to perform up to optimum expectation, accounts are kept in messy shape while the officers get away with lack of proper accountability.

This research is carried out in order to examine the extent to which proper accounts are being kept in the public sector and to offer solution to the inherent problem discovered.

The Enugu State Ministry of Finance and Economic Development is used as a sample ministry for this research work.

## **OBJECTIVES OF THE STUDY**

The objectives of this research work/study include the following:

To determine the extent to which the sample Ministry has installed an accounting system.

To determine the factors that promote or constrain the accounting system of the sample ministry.

To determine the impact of the accounting procedures of the sample ministry upon its financial reporting.

To make recommendations based on my findings.

## **IMPORTANCE OF THE STUDY**

This research paper is intended to examine the accounting system common in public sector with a view to exposing and highlighting the inherent limitations in the system.

Therefore, the research paper will be of interest and useful to the general publics, the government as well as the governed.

Government entrust public funds in the hands of its officials hence government reporting has traditionally stressed stewardship. Original accounting emphasis has been directed towards measuring the public funds generated and expended by the government's programme or activities. The traditional reporting approach is filled with many weaknesses of which it is hoped that this study will make useful recommendation on how to improve upon the accountability and financial reporting system of the government.

The duty to report all its financial activities to the general public is a debt that government must pay. Such report will enable the people know how public funds entrusted in the hands of the government have been utilized, this type of report is very sensitive and useful to the public but very few of them (the public) can understand it. This study will serve as a useful medium to such member of the public who find government financial reporting very ambiguous and hard to understand.

In many institution of higher learning the accounting curriculum offered is tailored

specifically to provide students with an understanding of financial reporting as it relates to profit oriented enterprises. For this purpose, students are frequently surprised to discover that the basic framework of financial accounting is significantly altered when the profit motive is removed. Though the accounting terminology may initially appear to resemble foreign language to all students of accountancy, and related professions who always deprived of knowledge of accounting system of the public sector, this study will be very useful.

Moreover, potential researcher in this aspect of accounting will find this research paper a very reliable reference base.

## **RESEARCH QUESTIONS**

Three dominant questions being reviewed by this research include;

Is the accountancy/accounting system in the public sector effective and adequate?

Does the accounting system in the public sector provide for proper financial control and accountability of stewardship?

Does the accounting system in the public sector provide useful information for the effective control and management of government operations?

## **SCOPE AND LIMITATION OF THE STUDY**

As the research topic would suggest at a glance, the scope of this, is essentially focused on the accounting system of the sample ministry as a general overview sample study of the accounting in the public sector.

Therefore, this study will look into the nature of the accounting system of the sample ministry; how the system operates, the relevance of the system to the environment, problems and prospects of the system.

## **LIMITATION**

Scarcity of material:

This aspect of accountancy (as pointed out above) has received very little attention from scholars despite its long historical age. Consequently, there are few literary publication on the student; the researcher was therefore limited to reviewing few

literature which are mostly in origin, through relevant to the study.

– Bureaucracy:

Government establishment are well known for maintaining utmost screening as regards their operations, more so, where it is a study that concerns their financial operation the researcher found it difficult to obtain material relating to the study (that is literature) and some officials who have been very elusive and uncooperative. More so the bureaucracy and protocol the research went through to obtain material and an appointment has been very discouraging.

Due to all this constrains, the researcher cannot say for certain whether the study has covered very ruddy gritty of the sample ministry as regards its accounting systems and procedures, but one thing is certain, enough materials have been gathered to help express an opinion as to the operative of the sample ministry.

Apart from the above listed limitations witnessed by this researcher is time constraint. This is a major limiting factor as the time between approval of the study and the deadline for submission was very short. The researcher relied heavily on the good will of the research supervisor because he understands my plight. Again lack of sufficient funds to conduct an extensive study was another handicap.

This was part of the reason why I had to limit my work to fewer staffs than was earlier planned.

## **DEFINITION OF TERMS**

Every field, discipline or profession has its terminology. Therefore, government accounting can never be an exception. In order to ensure easy understanding by the users of this work in relation to government accounting which are extensively applicable in public sector and or which have different meaning from private sector interpretation and usage are here by define below:

(1) Accounting Entity: Clearly defined economic unit which (a) Engages in identifiable economic activities

(b) Controls economic resources (for which accounting records are maintained and

periodic financial statement is prepared.

(c) is distinct from the personal dealings of its owners or employees. To ensure that the fundamental accounting equation always refers to the same distinct entity the boundaries of the unit, once established, must not be managed arbitrarily also called reporting entity.

Accounting entity is in the accounting and auditing, banking, commerce and finance and corporate, commercial and general law subjects.

Accounting entity appears in the definition of the following terms; accounting change, reporting entity, combination, fund and accounting policies.

(2) Accrual Accounts: The principles of “accruals” makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and the liability to pay it, stressing the importance of the right to the assets or the legal obligation in favour of the movement of the cash.

(3) Annual Appropriations: These are issues required to meet the expenditure of the state other than those covered by direct issues from the consolidated Revenue Fund.

(4) Capital: Is a plan of action quantified usually in monetary units to serve as a guild for the achievement of government objectives.

(5) Cash accounting; the recording of the transaction in which revenue and expense are reported (cash inflow and outflow) in the period in which the related cash receipts and payment occur. The wide spread use of cash accounting in public sector results from the government’s historically based requirement for financial information that shows fiscal compliance.

(6) Capital Budget: This is the budget that sets out the proposed acquisition of fixed (long-term) assets or projects and their finance.

(7) Depreciation: A non cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time (in other words, the depreciated), and must be replaced once the end of their useful life is reached. There are several accounting methods that are used in order to write off an

asset's depreciation cost over the period of its useful life. Because it is a non-cash expense depreciation lowers the company's reported earning while increase free cash flow. Although, government accounting does not recognize depreciation and this is one of the criticisms of the system.

(8) Encumbrance: Is an expense, which is both contingent and estimated. Obligations in the form of purchase order, contract or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. These obligations cease to be encumbrances when paid or when paid or when the actual liability is recorded. This term has no equivalent in the private sector accounting since unperformed portions of executing contracts are not recognized in the accounts.

(9) Estimated Revenue (Budget): If the accounts are kept on the accrual basis, this term designates the amount of revenue estimated to accrue during a given period regardless of whether or not it is all to be collected during the period.

(10) Expenditure (Actual Expenses): this is expenditure chargeable to an appropriation.

(11) Fixed Assets: A long – term, tangible assets held for business use and not expected to be converted to cash in the current or upcoming fiscal year, such as manufacturing equipment, real estate, and furniture (also called plant)

(12) Functional Budget/Programme Budget: A budget that allocates costs (or inputs) to particular functions or activities.

(13) Fun Accounting: This is basically operated on cash basis. It is an accounting arrangement whereby self-balancing set of accounts are provided for specific purpose. This system of accounting is usually used by non-profit organization and by the public sector.

(14) Fund balance; the excess of assets of a fund over its liabilities are reserves, except in the case of funds subject to budgetary accounting where prior to the end of a fiscal period. It thus represents the excess of the fund's assets and revenues for the

period over its liabilities reserves, and appropriations for the period.

(15) Historical cost Accounting; the traditional system of accounting that is based on valuations made in terms of the price ruling when transactions take place. In practice, this is modified by the concept of prudence and the possible revaluation of fixed assets.

(16) Revenue (Actual Revenue): is that revenue which are recorded on accrual basis, this term designates additions to assets which:

- Do not represent the recovery of the expenditure
- Do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or decrease in assets.

(17) Warrant: Authority for expenditure from the consolidated Revenue fund covered by the appropriation law in respect of recurrent budget or from the capital development fund is the case of a capital budget.

## **AN APPRAISAL OF ACCOUNTING SYSTEM IN THE PUBLIC SECTOR**

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