

EXPLORING THE DIFFERENCES BETWEEN BUDGET ACCOUNTING IN THE PUBLIC SECTOR AND ACCOUNTING IN THE PRIVATE SECTOR

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Abstract

This article explores the differences in measurement bases and techniques between International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). The analysis identifies three key differences that warrant closer examination: the application of fair value in the public sector, the unique measurement basis of current operational value, and the treatment of assets held for their service potential and other specialized assets. Furthermore, the comparison of budget accounting practices in the public and private sectors highlights challenges and opportunities for aligning financial reporting practices.

Keywords: accountability, fair value, financial reporting, IFRS, IPSAS, measurement bases, private sector accounting, public sector accounting, transparency.

Introduction

Having separate accounting standards for the public and private sectors is crucial due to their distinct objectives and stakeholders. Public sector accounting focuses on accountability, transparency, and compliance with legal requirements, while private sector accounting emphasizes profitability, shareholder value, and market competition. By having tailored accounting standards for each sector, organizations can meet the specific needs of their stakeholders and ensure accurate financial reporting.

IPSAS provide more relevant public sector application guidance, in particular in relation to the factors that give rise to binding arrangements and enforceability mechanisms beyond legislation and contracts. IFRS and IPSAS are principles-based accounting standards that require judgement. The recognition of expenses, revenue, assets and liabilities will depend on whether the definitions within the standards have been met.

Literature Review

The quality of public sector financial reporting is significant for countries' economic and financial development. It promotes accountability, transparency, and good governance and facilitates the securing of funding, support, and investments (Gourfinkel, 2022; Tawiah, 2023a, 2023b; Tawiah & Soobaroyen, 2022). However, financial reporting in the public sector faces specific challenges in developing countries, directly impacting the adequacy of financial reporting practices. These challenges affect the effectiveness of managing public

funds and ultimately undermine public trust (Adhikari & Jayasinghe, 2017; Grossi et al., 2023; Liberato et al., 2023).

Further, the significance and advantages of IPSAS have been questioned in developing and developed countries (Adhikari et al., 2021; Bonollo, 2023). In light of this, Adhikari et al. (2021) conducted a study on IPSAS adoption in Egypt, Nepal, and Sri Lanka. The findings revealed that these reforms encountered internal conflicts, resistance, and manipulation of results due to the unique contextual factors in these countries. These factors include power structures, communication flows, reform complexity, and informal networks. The research underscores the role of contextual factors and explains why accounting reforms advocated by international institutions have, in some cases, been unsuccessful.

Methodology

This study employs a qualitative research design to compare the International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS). Qualitative analysis allows for a detailed exploration of the differences and similarities between these two sets of accounting standards. Data for this study was collected through a comprehensive literature review of academic articles, official publications, and regulatory documents related to IPSAS and IFRS. Additionally, financial statements prepared in accordance with both standards were analyzed to identify practical implications and differences in reporting. A comparative analysis approach was used to identify key differences and similarities between IPSAS and IFRS. The analysis involved side-by-side comparisons of the requirements outlined in each standard, focusing on areas such as measurement, recognition, and disclosure.

Discussion and Results

According to the U.S. Bureau of Labor Statistics, job rates for accountants and auditors are increasing at a faster than normal rate. By 2030, there should be almost 100,000 more jobs available in this vital field. Within accounting, there are two primary career paths – public and private. Public accounting offers the opportunity to work with various accounting systems and for an array of companies operating all over the world. Public accountants often have to build rapport with their clients, so strong social skills are a significant advantage. Life for a public accountant can be busy, filled with travel and irregular work hours.

Private accountants are typically employed by a single employer and review internal business documents to plan budgets and evaluate fiscal performance. While working with solely one employer can feel more routine, it often leads to a healthier work-life balance. Private accountants often specialize in a specific industry, which can build specific knowledge and skill sets within the chosen field.

Both career paths have similar foundations: They prepare leaders with the necessary accounting skills to help organizations make financially sound business decisions.

Key Differences Between Budget Accounting in the Public Sector and Accounting in the Private Sector:

- Objectives: Public sector budget accounting aims to allocate resources efficiently to achieve public policy goals, while private sector accounting focuses on maximizing profits and shareholder value.

- Regulation: Public sector accounting is often subject to stricter regulatory oversight and compliance requirements compared to private sector accounting.

- Reporting: Public sector budgets are typically prepared using cash basis accounting, focusing on inflows and outflows of funds, while private sector financial statements are prepared using accrual basis accounting, reflecting economic transactions regardless of cash movements.

Bodies Responsible for Regulation Procedures:

- Public Sector: The International Public Sector Accounting Standards Board (IPSASB) sets international standards for public sector accounting practices, guiding governments and public entities worldwide.

- Private Sector: The International Accounting Standards Board (IASB) establishes global financial reporting standards for the private sector, ensuring consistency and comparability across industries and countries.

The adoption of accrual accounting by governments is gathering momentum. Many jurisdictions that are already applying accrual accounting have based their accounting framework on either International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS) and adapting them to suit their specific needs. The main thing to note is that financial reporting in the public and private sectors is not materially different when applying Generally Accepted Accounting Practice (GAAP). A balance sheet must be created, assets and liabilities valued, and revenue and expenditure recorded on an accrual basis – all with accompanying notes.

Most differences between public and private sector accounting arise when transactions are not at arm's length. These are often referred to as non-exchange transactions, where an entity receives value from another entity without giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange. Examples include taxes, fines and penalties but also grants and donations. IFRS assumes transactions are on a commercial basis and don't cover these types of transactions.

That is why, when comparing IFRS with IPSAS, the standards are broadly aligned (with different terminology) yet IPSAS contain a handful of standards that cover public sector specifics, the most prominent being social benefits.

Apart from non-exchange transactions another key difference has emerged in relation to fair value. IFRS 13 'Fair Value' has introduced a number of concepts that are not always easily applied in the public sector.

There are a number of differences in the measurement bases and techniques when comparing IFRS and IPSAS. The IPSASB measurement standard provides a useful overview of the most commonly applied measurement bases and techniques. In contrast, IFRS only

has a specific standard on fair value (IFRS 13) but does provide more guidance on measurement within other standards.

There are three differences that require greater scrutiny:

1. Fair value and how that is applied in the public sector;
2. Unique measurement basis in public sector – current operational value; and
3. Assets held for their service potential and other specialist assets.

The analysis of key differences between budget accounting in the public sector and accounting in the private sector underscores the challenges and opportunities for aligning financial reporting practices across sectors. Recommendations include harmonizing accounting standards, enhancing transparency in public sector budgeting, and promoting accountability through improved reporting mechanisms.

Conclusion

Public sector budget accounting aims to allocate resources efficiently to achieve public policy goals, while private sector accounting focuses on maximizing profits and shareholder value. Public sector accounting is often subject to stricter regulatory oversight and compliance requirements compared to the private sector. Additionally, public sector budgets are typically prepared using cash basis accounting, while private sector financial statements use accrual basis accounting.

Although financial reporting in the public and private sectors is not materially different when applying Generally Accepted Accounting Practice (GAAP), some variations arise when dealing with non-exchange transactions. These transactions, such as taxes, fines, grants, and donations, are not covered by IFRS as they assume commercial basis transactions.

In summary, while there are similarities between public and private sector accounting, each path has its unique characteristics and requirements. Aspiring accountants should consider their interests, work-life balance preferences, and the specific industry they wish to specialize in when choosing between public and private accounting.

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