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PRESENTATION OF COSTS AND INCOMES OF BUDGETARY UNITS IN ACCORDANCE WITH POLISH ACCOUNTING REGULATIONS

Abstract: Specific rules of accounting concerning budgetary units do not define the idea of costs and incomes in different manner than it is in the Accounting Act. However, they affect registry rules of those costs and their presentation in profit and loss account, imposing, among other things, obligation of registering operating costs by kinds and preparing a comparative variant of profit and loss account, with separation in that account of incomes from budgetary titles included in budgetary revenues of local government units and costs composed not only of costs of units activity, but also of titles of benefits for private persons financed from the budget and expenditures related to functionality of executive organs of local government. The model of a profit and loss account valid for budgetary units is often criticized for being not specific enough in showing costs and incomes of those entities.

Keywords: budgetary unit, specific accounting rules, operational costs, profit and loss account.

1. Introduction

Inseparable element of conducting an activity is bearing the costs and as a rule gaining some incomes. Their kind and level are dependent on scale and character of conducted activity and a method of registry and data presentation from valid regulations of keeping the books and preparing financial reports. Rules of keeping the books in Poland are specified by the regulations of the Accounting Act and in case of some entities by specific regulations, issued in form of a decree of Minister of Finance. To the group of units obliged to comply with both general and specific regulations in keeping the books and preparing financial reports belong budgetary units. Information about gained incomes and borne costs is presented in profit and loss account by those units.

The aim of this article is comparison of applied method of presenting the costs and incomes by budgetary units with the structure of profit and loss account used by business entities and assessment of validity of some of the solutions to presentation of costs and incomes applied in profit and loss account of budgetary units.

2. Rules of keeping the books by budgetary units in Poland

Budgetary units in Poland are the basic organizational form of units from the public finance sector. In this form function offices of central and local governments, courts, police, army, elementary schools, high schools, social service and others. Basic feature of financial economy of budgetary units is that sources for expenditures are received from proper budget (state budget or local government budget) and gained incomes must be transferred to that budget. It is caused by the fact that in predominant majority those units provide services free of charge and conducting of activity by them is possible because of the sources acquired to cover the costs. Those costs, registered as realized on the basis of really undertaken expenditures of sources from current account of units are not identical to costs borne in settling periods. Units conducting activity free of charge do not realize in basic activity incomes from selling the products. In most entities incomes are composed mainly of interests, renting or selling of property. Within the framework of basic activity some units also gain incomes from public legal titles such as collecting local taxes and charges by commune offices, charging court fees, etc. Activity conducted by budgetary units is not an economic activity oriented for gaining profit [8].

Budgetary units as entities belonging to public finance sector, are obliged to keep the books according to accounting regulations, including rules coming from public finance act. Public finance act lay a duty upon Minister of Finance to determine specific regulations of keeping the books, including standard chart of accounts, registry rules of budget execution, valuation rules of assets and liabilities, rules of preparing financial reports and receivers of those reports (art. 40 p. 1-4 of Public Finance Act) [6]. Currently it is the decree of Minister of Finance of July 28, 2006 concerning specific rules of keeping the books and charts of accounts for state budget, budgets of local government units and some entities from the public finance sector (*Journal of Laws of Republic of Poland*, Nr 142, pos. 1020 with later changes) – henceforth called the decree. In reference to new public finance act which came into force on January 1, 2010 the necessity to change many executive acts related to that act occurred, including decree concerning specific rules of keeping the books. By realizing delegation from article 40, paragraph 40, point 4, letter a, of Public Finance Act of September 27, 2009 (*Journal of Laws of Republic of Poland* 2009, pos. 1240) the Ministry of Finance have prepared novelty of regulations in the decree. The content of project of that decree of February 10, 2010 including justification of proposed changes has been placed on Ministry's webpage [9]. That is why in the article references to contents of that project are made.

Incomes and costs in budgetary units are registered in compliance with general rules of accounting such as accrual basis, proportionality of costs and incomes or relevance rule. Specific rules of accounting placed in the decree of the Minister of Finance [2], concerning costs and incomes, are mainly about:

- necessity of classifying into incomes of office of local government unit budgetary revenues not included in financial plans of other local government budgetary units,
- registry of incomes and costs on specific accounts and according to rules pointed out in description of functionality of those accounts included in attachment No. 2 to the decree,
- presentation of data about incomes and costs of budgetary unit in comparative model of profit and loss account prepared with accordance with the form being placed in the attachment to the decree.

No matter according to what rules the financial report has been prepared, including profit and loss account, information in it should be, among other things, useful and understandable.

As underlined, clearness of information is decisive for its usefulness. Even most important and reliable information becomes useless for users if they cannot read and interpret it correctly, despite their knowledge, education and experience in accounting [4, p. 105]. Great meaning has also describing specific categories of incomes and costs and based on them outcomes in a method applied in practice of budgetary units [3].

There is no difference in definition of costs and incomes between currently valid decree and Accounting Act and the project of new decree as well, which does not mean that objective range of specific groups of costs and incomes is the same in budgetary units and in earning units [1]. Specific for budgetary units inclusion of costs and incomes is considered in the decree in the description of functioning of specific accounts of costs and incomes and in the method of their presentation in profit and loss account.

Just like in earning units, costs and incomes of budgetary units in profit and loss account have been divided into three basic groups:

- incomes and costs of basic activity,
- other operating incomes and costs,
- financial incomes and costs.

Extraordinary profits and losses are separately mentioned.

Neither the Accounting Act nor the decree do define costs of operating activity. In art. 3 p. 1.31 of Accounting Act the definition of costs and losses of a unit is given, in the decree there is no specific understanding of costs. It is a common assumption that costs of operating activity are directly related to it and result from normal course of that activity.

3. Operating costs in profit and loss account

Within the framework of financial report costs are presented in the first segment of profit and loss account. Model of that report included attachment No. 8 in currently valid decree was based on directed to business units model from attachment No. 1 of the Accounting Act – comparative variant. Table 1 illustrates the method of presenting the costs in both models.

Table 1. Operating costs in profit and loss account

Accounting Act – earning units	Decree – budgetary units
I. Amortization	I. Amortization
II. Consumption of materials and energy	II. Consumption of materials and energy
III. External services	III. External services
IV. Taxes and charges, including: excise tax	IV. Taxes and charges
V. Salaries	V. Salaries
VI. Social insurances and other benefits	VI. Social insurances and other benefits for employees
VII. Other generic costs	VII. Other generic costs
VIII. Worth of sold products and materials	VIII. Worth of sold products and materials
	IX. Donations
	X. Other benefits financed from the budget
	XI. Other liabilities

Source: own elaboration.

As it results from the comparison in Table 1, the presentation of costs of operating activity in profit and loss account is almost the same in both regulations in positions I-VIII. It is assumed that those are the costs of normal activity of budgetary unit as an organizational entity. Whereas positions IX-XI relate to costs specific for budgetary units, such as benefits for private persons financed from the budget (for example, social benefits) and other liabilities (for example, liabilities of liquidated entities taken over for repayment). Those benefits and liabilities come from realization of regulation of Public Finance Act and other legal acts. In proposed changes of specific rules of keeping the books position IX – Donations, is removed, because of the fact that in practice of budgetary units (and also budgetary institutions) there are no donations included in costs of operating activity.

One can ask if cost presentation regarding basic activity of budgetary units by their kind is adequate to their specific activity. In the author's opinion it is the most universal but not the only way it can be applied. Formulation and then presentation of costs in section by activities and tasks by budgetary units is being discussed. In offices of local government units it is worth to consider separating costs related to functioning of executive unit and its board from overall activity costs of the office treated as an organizational unit. As we can assume, in connection with implementing in Poland a task budget and introducing registry obligation of expenditures in section by tasks, cost registry will be conducted in similar manner [5].

4. Incomes from basic activity of budgetary unit in profit and loss account

Like cost, also income included to income from basic activity is not directly defined in Accounting Act nor in specific regulations of keeping the books by budgetary units. Groups of income included in basic activity can be defined by looking on model of profit and loss account.

Table 2. Incomes from basic activity of budgetary unit in profit and loss account

Accounting Act – earning units	Decree – budgetary units
A. Net incomes from sale and equated with them, including: – from related units: I. Incomes from selling products II. Change of products status (increase – positive value, decrease – negative value) III. Cost of manufacturing products for own use IV. Net incomes from selling merchandise and materials	A. Net incomes from sale and equated with them, including: – from related units: I. Incomes from selling products 1. Including: donations classified as incomes (subjective, objective, for first fitting with working assets) Change of products status (increase – positive value, II. decrease – negative value) III. Cost of manufacturing products for own use IV. Net incomes from selling merchandise and materials V. Other budgetary revenues

Source: own elaboration.

Just like for costs, so it is for incomes from basic activity that structure of profit and loss account is very similar to the one which is applied for earning units. But with reference to income it does not seem to be the right idea. Established structure of presenting the income suggests that incomes which can have decisive meaning for budgetary units are incomes from selling the products and cost of manufacturing products for own needs. In most budgetary units providing services is cost-free. Possible charges, for example court charges, are of official character and are not proportional and based on real costs of activity. So in those units, if there are incomes, they are mainly those which should be presented in profit and loss account in A.V. position – Other budgetary incomes, as an incomes equated with income from selling. That group of income has significant meaning in offices of local government units, because incomes from taxes and charges are included in it.

By taking into account even above-mentioned arguments, one should acknowledge conclusions pointed out by practitioners and academic circles, regarding the change of structure of profit and loss account, especially of discussed incomes. It can be applied both to names of income groups and to change of presentation order. However, in project of new decree concerning specific rules of keeping the books by budgetary units it has been decided that previous version would still be applied.

5. Other operating incomes and costs

As a rule, other operating incomes are incomes indirectly related to operating activity of a unit. In profit and loss account the structure of that income group, similarly to incomes from operating activity, is not very different from the version for earning units. But it does not mean that the range of incomes included in that position is the same. For example, profit from selling non-financial fixed assets in case of budgetary units is defined as a difference between income from selling and its cost without non-

amortized initial value. It is so because net worth of sold assets reduces unit fund and, differently than in earning units it is not included in costs of budgetary unit.

Table 3. Other operating incomes in profit and loss account

Accounting Act – earning units	Decree – budgetary units
D. Other operating incomes	D. Other operating incomes
I. Profit from selling of non-financial fixed assets	I. Profit from selling of non-financial fixed assets
II. Donations	II. Donations
III. Other operating incomes	III. Defrayal of amortization
	IV. Other operating incomes

Source: own elaboration.

Directly seen difference between other operating incomes is typical of budgetary units “Defrayal of amortization”. It is not an income, but category related to incomes, causing that amortization does not affect the financial outcome of budgetary units.

Table 4. Other operating costs in profit and loss account

Accounting Act – earning units	Decree – budgetary units
E. Other operating costs	E. Other operating costs
I. Loss from selling of non-financial fixed assets	I. Costs of investments financed from sources owned by budgetary institutions and revenues of budgetary units
II. Update of worth of non-financial assets	
III. Other operating costs	II. Other operating costs

Source: own elaboration.

Just like other operating incomes, other operating costs are costs indirectly related to operating activity, which in budgetary units are mainly titles such as costs of legal proceedings, non-culpable shortages, write-downs from questionable debts. In relation to earning units, inclusion of equivalent of sources meant for financing investments coming from so called own revenues, that is revenues which the unit does not have to transfer to budget, to other operating costs is not typical. In the project of a new decree that position of profit and loss account was erased, also with reference to liquidation in budgetary units of possibility to have own revenues.

Significant difference in comparison to other operating costs of earning units is lack of loss from selling of non-financial fixed assets in costs of budgetary units. It is a consequence of presumption, which was mentioned in discussion about other operating incomes, that net worth of sold (liquidated) non-financial fixed assets is not treated as cost, but as a reducing of units fund. It causes lack of symmetry in case of other operating incomes and costs, but is also a consistent realization of accepted in specific regulations of keeping the books by budgetary units assumption that changes in value of fixed assets, with the exception of those amortized only once, are applied to fund, not to financial outcome of a unit.

6. Financial incomes and costs

In Accounting Act there is no definition of the idea of financial incomes and costs, because depending on kind of conducted activity operations included to financial operations in service or manufacturing units are for example for banks a part of operating activity.

In accordance with the version of profit and loss account, which budgetary units are obliged to apply, inclusion of financial incomes and costs is similar to units conducting a typical business activity. Those are mainly received or due dividends and shares in profits, received interests and other incomes, for example gain from foreign exchange.

Table 5. Financial incomes in profit and loss account

Accounting Act – earning units	Decree – budgetary units
G. Financial income	G. Financial income
I. Dividend and share in profits	I. Dividend and share in profits
II. Interests	II. Interests
III. Profit from selling of investments	III. Other
IV. Update of worth of investment	
V. Other	

Source: own elaboration.

In financial incomes of budgetary units incomes from selling of investments and update of worth of investment were not separated as a detached position of profit and loss account. It relates to the fact that in budgetary units investments in the meaning from Polish Accounting Act or International Accounting Standards do not exist. Only offices of local government units separate long-term financial assets in registry, which are mainly composed from shares in communal companies. Those shares are on balance day valued by acquisition cost with eventual inclusion of permanent worth loss of those shares. Write-downs from title of permanent worth loss are included in financial costs. Only worth restoration of those shares would affect financial incomes. But those are very rare cases.

As a rule in earning units the range of incomes presented in profit and loss account agrees with the range of operations registered on account “Financial incomes” (or on group of accounts applied to this category). In binding for Polish budgetary units specific regulations of keeping the books account 750 “Financial incomes” is destined to register two very different groups of operations, which are also differently presented in profit and loss account. First group of operations are typical, above-mentioned financial incomes, second group consists of operations from tax and non-tax budgetary revenues such as taxes and charges, which are also called public tributes. According to comments of the Ministry of Finance, into financial incomes from title of budgetary revenues registered on accounts of local

government offices are also included incomes from donations and subventions received from the state budget. According to so far applied method of presentation of this group of incomes, they are included into position of basic activity and presented in profit and loss account as position A.V. – Other budgetary revenues.

The solution applied by the Ministry of Finance in standard chart of accounts, also preserved in suggested novelization of the decree, comes more from unwillingness to change than from essential need for preserving such a solution. In practice, offices of budgetary units split account “Financial incomes” into separate accounts which serve as registers of typical financial incomes presented in group G of profit and loss account and incomes from title of tax and non-tax budgetary incomes presented in group A of profit and loss account. Binding together in chart of accounts so different operations in one synthetic account, as it seems, should not take place.

Closer than in case of earning units, the range of financial incomes is justified, as it was earlier discussed, by limitation of occurrence of long-term financial assets in budgetary units and thereby recognition of the need of separate presentation of information about effects of changes of worth of those assets.

Table 6. Financial costs in profit and loss account

Accounting Act – earning units	Decree – budgetary units
H. Financial cost	Financial cost
I. Dividend and share in profits	I. Interests
II. Interests	II. Other
III. Profit from selling of investments	
IV. Update of worth of investment	
V. Other	

Source: own elaboration.

Problem in practice of Polish budgetary units, especially offices of local government units, is inclusion of provision and interest from credits and loans uncured to finance building of fixed assets and also borne for that cause costs of emission of securities. There is no uniform interpretation in that matter. And because of that, part of units which recognize that credit is incurred for example by commune, that is local government unit as a legal entity and not by office as a budgetary unit, such interests – according to rule that in costs of an office of local government unit are registered all costs which are not costs of other budgetary units functioning as a part of that unit of local government, presents those interests as a financial costs in profit and loss account. Thereby those entities do not take into account costs of external financing in initial value of new fixed assets, incurred on those assets. It is not compatible with definition of acquisition cost of fixed assets from the Accounting Act. Other units recognize that interests and provisions from credits and loans incurred to finance building of fixed assets, according to the Accounting Act, should be included in initial value of those assets and thereby excluded from financial costs.

7. Conclusions

Profit and loss account is a fairly new element of financial report of budgetary units. Obligation of its preparing was introduced in Poland in 2006. Minister of Finance, issuing in attachment to the decree concerning specific accounting rules, model of profit and loss account valid for budgetary units, was relied on model of comparative variant of profit and loss account for business entities from attachment No. 1 to the Accounting Act. Changes aiming at considering specifics of financial economy and related to it specific titles of costs and incomes founded in budgetary units, were introduced to that model. However it is the method of presenting those specifics that is often considered as not very clear and sufficiently separated. Registry rules for them issued in specific regulations, especially concerning incomes from budgetary titles, are also criticized. That is why profit and loss account is regarded by users of information about costs, incomes and financial outcome as unfitting to the information need and specifics of activity conducted by budgetary units. They point out the possibility of different method of presentation of costs and incomes of budgetary units from that applied in currently valid model of profit and loss account, which is mostly preserved in the project of a new decree.

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PREZENTACJA PRZYCHODÓW I KOSZTÓW JEDNOSTEK BUDŻETOWYCH ZGODNIE Z POLSKIMI PRZEPISAMI RACHUNKOWYMI

Streszczenie: Szczególne zasady rachunkowości dotyczące jednostek budżetowych nie definiują w odmienny sposób, niż wynika to z ustawy o rachunkowości, pojęcia przychodów i kosztów. Wpływają jednak na zasady ewidencji tych kosztów i ich prezentację w rachunku zysków i strat, narzucając m.in. obowiązek ewidencji kosztów operacyjnych według rodzajów i sporządzanie porównawczego wariantu rachunku zysków i strat, z wyodrębnieniem w tym rachunku przychodów z tytułu dochodów budżetowych zaliczanych do dochodów jednostek samorządu terytorialnego oraz kosztów nie tylko stanowiących koszty funkcjonowania jednostki budżetowej jako jednostki organizacyjnej, ale także ponoszonych z tytułu świadczeń na rzecz osób fizycznych finansowanych z budżetu oraz wydatków związanych z funkcjonowaniem organów stanowiących jednostek samorządu terytorialnego. Obowiązujący jednostki budżetowe wzór rachunku zysków i strat jest często krytykowany za to, że niedostatecznie oddaje specyfikę przychodów i kosztów tych jednostek.