

ACCOUNTING RECORDING SYSTEM ON ACCRUAL BASIS AT LOCAL AUTHORITIES IN TURKEY: AN APPLICATION IN GAZIANTEP LOCAL MUNICIPALITY

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ABSTRACT

Saving and storing all the financial data needed by the public sector on a daily basis, accurately, and reliably; processing and analyzing these data, thereby presenting the management information and financial information to administrators in decision-making status is vital. In a decision-making process, a well-designed management information system provides timely and adequate information and generates related reports for the managers. Therefore, as it helps managers make effective, timely and accurate decisions, it has a critical role in fulfilling managers' obligations of accountability. Local government accounting practices have been performed according to 5018 Public Administration and Control Act 5018 since 2004 in Turkey. With this law, cash basis accounting which causes most of the information loss and unrecorded entries important for reporting, is replaced by a local government accounting system on accrual basis. In this system, as mentioned before, an expense is recorded when the purchased good or provided service causes a local government debt, whereas an income is recorded when it accrues. With the help of this system, the information about assets and liabilities of local municipalities are completely recorded on time. In this study, the primary aim is to identify problematic entries in terms of accounting records which local governments face and determine crucial points in accounting reports in Turkey. Also the accrual basis accounting systems at local municipalities in Turkey and their practices have been analyzed and an application has been done at Gaziantep Municipality.

Keywords: Government Accounting, Accrual Basis Accounting System, Cash Basis Accounting System

JEL Code: M41, M48

INTRODUCTION

In the periods when local municipalities had less control, need for information for the local municipalities was less and simpler. For this reason, local municipality accounting practices in the past concentrated on cash basis recording system. Therefore the recording and reporting of collected revenues and expenses in the budget year was adequate. In time, economic activities and effectiveness of the local municipalities increased. As a result of this, economic decisions taken by local authorities have become significant for the country's economy. These developments focused attention on financial decisions taken by local municipalities and the recording and reporting of financial transactions made by local municipalities. The transactions and events in accrual basis are recorded when they exist regardless of the existence time of cash flows. An income account, regardless of whether it is charged in cash or not, shows records which are accrued during the financial year and which should be recorded according to Generally Accepted Accounting Principles (GAAP). An expense account, regardless of whether it is paid in cash or not, shows records which are accrued during the financial year. As can be understood, the accrued incomes and expenses are added to accounts and reports in the financial year in which they exist. The operations related to economic events are recorded and reported in the financial year which they belong to. With this feature, periodical financial reports accurately reflect the financial transactions corresponding the operation periods.

GOVERNMENT ACCOUNTING

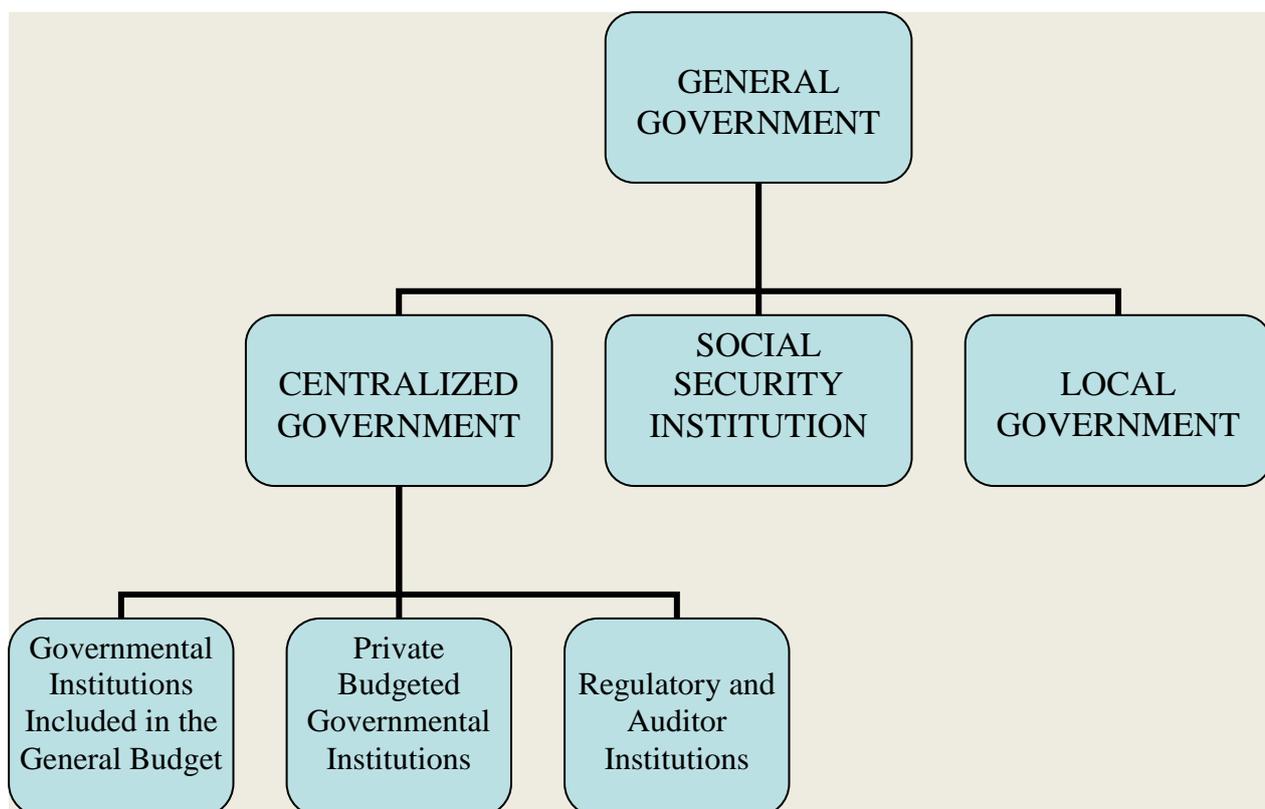
Government accounting can be described as a system which gathers, records, classifies and summarizes as reports the financial events existing in the public sector and as required by accountability and financial transparency provides information to information users associated to public institutions (www.demud.org.te/atopak_dms_rapor). There are two options in government accounting system: cash basis accounting recording system and accrual basis accounting recording system.

CASH BASIS ACCOUNTING SYSTEM

In cash basis accounting recording system, what is important is not the occurrence time of financial events, but when the money is collected and cash payment is done after these kind of financial event. Accounting entries are recorded when cash inflow and outflow are made. This method is only related to cash flows and budget movements. The changes on government liabilities, accrued expenses and incomes of government and tangible assets of government are not considered in this recording method (Hoek, 2005).

ACCRUAL BASIS ACCOUNTING SYSTEM

In 2004, according to framework account plan, for general budgeted offices and added budgeted administrations inside the central administration, “General Budgeted Offices and Added Budgeted Administrations Accounting Regulation” based on accrual basis was prepared. It was published in the Official Journal volume 25379, dated 20.02.2004 and then has come into force. As a result, Government Accounting Regulation in force was repealed in accordance with this regulation’s 463. item (Çalış, 2005: 110). To be valid from the beginning 2006, accrual basis government accounting application has begun to apply in all of the institutions shown at table:



Accrual Basis Government Accounting System which came into force with General Management Accounting Regulation is suitable for comparison of annual financial statements with periodical financial statements and comparison of incomes and outcomes. Besides this, it is suitable for financial statement analysis, computation of government service costs and other periodical financial data used for administrative decisions (Karaarslan, 2007: 1). Accrual basis accounting system is a system in which operations and transactions are recorded immediately when they occur regardless of payment or purchase of cash or cash equivalent assets. In this system, an economic value is accounted when it occurred, when it is transformed into another form, when the owner changed or when it disappeared. Also in accrual basis accounting system, assets, liabilities, incomes and expenses are accounted on accrual basis.

THE DIFFERENCE BETWEEN ACCRUAL BASIS RECORDING SYSTEM AND CASH BASIS RECORDING SYSTEM

The differences between accrual basis accounting system and cash basis accounting system are:

Table 1: The comparison of accrual basis accounting system and cash basis accounting system

	Accrual Basis Accounting System	Cash Basis Accounting System
Cheques Received	It is recorded to received cheques account.	It is recorded to cash account.
Marketable Securities	It is separately recorded as public and private sector.	Both public and private are followed in off balance accounts.
Accounts Payable and Accounts Receivable	It is recorded according to debts and credits payment term.	Debts and credits' payment terms are not distinguished.
Advances Account	Advances are recorded to the periods when they are accrued.	Advances are not recorded to the periods when they are accrued.
Short Term Deferred Income/Expense Accounts	Prepaid payment/collection is followed in for recording on their own terms in this account.	Term separator accounts are not used.
Stock Count Delivery Surpluses and Shortages	Count surpluses and shortages accounts are used.	Count surpluses and shortages accounts are not used. Surpluses are shown in income account; shortages are shown in expense account.
Unpaid Debts Because of Funds Shortage	Even if there is no fund, it is followed in debts account.	There are no records related to unpaid debts because of funds shortage.
Tangible Fix Assets	Tangible fix assets are followed with their cost values. Depreciation is calculated according to their useful lives.	Tangible fix assets are shown as expenses from that year's budget.
Income Accounts	Although there is no collection, it is shown in income accounts in the related term.	It is shown in income accounts when collection is done.
Expense Accounts	Although there is no payment, it is shown in expense accounts in the related term.	It is shown in income accounts when payment is made.
End of Period Transactions	At the end of each period, accounts needing to be closed are closed and activity results are calculated.	Turnover sheets are prepared at the end of the period. Some accounts turn over and some do not. There are no activity results at the end of the period.

There are two significant components in accrual basis government accounting system. These are accountability and fiscal transparency (Karaarslan, 2002: 62).

Accountability

Accountability refers to the liabilities of public institutions to society related to the using of public resources. The purpose of accounting is to present financial information to society accurately and reliably. The information produced by accounting system provides explanations for the usage of public resources (Sevim et al., 2009: 48). A financial statement that is not recorded or a false record in the government accounting system does not fulfill the accountability obligation. It is hard to fulfill accountability obligation in cash basis accounting system, since a standard form of financial statements does not exist and not all of financial statements are recorded.

Fiscal Transparency

Fiscal transparency means the clearance of government structure and functions, fiscal policy plans, public sector accounts and financial goals to all public opinion. Fiscal transparency provides availability, inclusiveness, timeliness, understandability of data and comparability of the State activities internationally (Kopits, 1998: 2).

Providing the fiscal transparency has become one of the fundamental conditions to provide the evaluation of economics more honestly and to increase productivity and efficiency in fiscal management of public section. Nowadays, fiscal transparency has become one of the most fundamental conditions and the basic preconditions of fiscal transparency are as follows (Sevim et al., 2009:48):

1. Clarity of Roles and Responsibility
2. Open Budget Processes
3. Public Availability of Information
4. Assurances of Integrity

THE ACCOUNTING SYSTEM OF MUNICIPALITIES IN TURKEY

Local government's accounting system in Turkey includes the budget and accounting records and activities by special provincial administrations, municipal governments and local administrations. Until 2004, the accounting transactions of municipal governments had been performed according to Municipality Accounting Regulation and Municipality Budget and Accounting Ordinance published in accordance with 129. item of the Act number 1580 in 1931. As a result of developing economic conditions and the growth of fiscal structure of municipalities, there is a need to transform the regulations and legislations (Dişli and Kızılkaya, 2000:12). In this context, the accounting recording systems of municipalities were reordered with Act number 1580. According to this law, preparation of income and expense budgets of municipalities on budget basis, preparation of accurate budget accounts and accounting transactions make up the content of the legislation. The legislation was essentially regulated in accordance with Act number 1050 and Government Accounting Legislation. The only difference from Government Accounting Legislation is the involving of the accounts of property holdings. With this feature, it is one step ahead of Government Accounting and suitable for consolidation with Budget Added accounts (Yanık, 2002:20). Accrual basis government accounting was put into force in general budgeted and added budgeted administrations in the beginning of 2004; and beginning from 2006 it was put into force in all public administrations. Therefore, the implementation date of the new accounting system was going to be 01.01.2006.

THE FISCAL STRUCTURE OF MUNICIPALITIES

The fiscal structure of municipalities is the most important component of the local government system which shows the quality of the services and determines the dimension of services provided to the county. Local incomes, transfers of central administration, the size of the resources going into debt, efficiency of expenditures and productivity of expenditures are effective on the shape of fiscal structure. The fiscal size of the municipality system has had a continuous expansion in the last 35 years. Municipality expenditures included debt payments increased 1,005.3% with 1995 constant prices in 1975-2010 periods. Total resources including debts increased 1,060.5% in the same period (Kurtuluş, 2006:5).

Government accounting system, considered in cash basis and in the content of getting into debts and debt repaying, is performed with the financing of budget deficits, non-payment of public liabilities and non-payment of guaranteed debts. Accrual basis government accounting system is shown between actually performed debts, deduction of tax share and debt payment. Also, debt on account deduction namely accrual amount is based on budget tax share item in general. Therefore, the financial statements prepared by municipalities are being prepared more suitably for financial analysis and are prepared compatibly for international standards (Kurtuluş, 2006:5). Total cash and cash equivalents, debts and credits of all municipalities in Turkey and Gaziantep Metropolitan Municipality are shown in Table 2:

Table 2: The fiscal structures of municipalities

Fiscal Structures of Municipalities	Metropolitan Municipalities in Turkey		Gaziantep Metropolitan Municipality	
	2008(million)	2009(million)	2008(million)	2009(million)
Cash and Cash Equivalents	1,522.8	1,366.9	6	23
Credits	6,458	7,981.2	11	18
Debts	30,982.8	34,992.7	27	17

While there was a decrease of 155,900,000 TL in cash and cash equivalents in metropolitan municipalities in Turkey from 2008 to 2009, there was an increase of 17,000,000 TL in Gaziantep Metropolitan Municipality. The credits of metropolitan municipalities in Turkey increased 23.58% from 2008 to 2009. The credits of Gaziantep Metropolitan Municipality increased 63.63%. The debts of metropolitan municipalities in Turkey increased 12.94% from 2008 to 2009. The debts of Gaziantep Metropolitan Municipality decreased 37.03%.

THE EXPENSE ITEMS OF MUNICIPALITIES

Personnel Expenditures: It includes the wages of civil servants, contracted staff, employees, temporary staff and other staff working in related municipalities (Anessi and Steccolini, 2007: 116).

Social Security Association Government Premium: It is composed of premium expenditures of civil servants, contracted staff, employees, temporary staff and other staff working in related municipalities.

Purchases of Goods and Services: It is composed of purchases of goods and materials used for production, purchases of goods and materials used for consumption, travel allowances, task expenditures, service purchases, representation and publicity expenditures, personal property, intangible right purchases, maintenance and repair expenditures, maintenance and repair expenditures of real estate properties, treatment and funeral expenditures of related municipalities (Christiaens, 2004).

Interest Expenditures: It includes interest expenditures of internal debts paid to public associations, other interest expenditures of internal debts, interest expenditures of external debts and discount expenditures of related municipalities.

Current Transfers: It is composed of task losses, local government helps, transfers made to non-profit foundations, transfers made to households, transfers to abroad and shares reserved from incomes of related municipalities.

Capital Expenditures: It is composed of purchases of finished goods, production expenditures of property capital, intangible right purchases, real estate purchases and their nationalization, production expenditures of real estate capital, major repair expenditures of real estates, inventory purchases and other capital expenditures of related municipalities.

Capital Transfers: It is composed of domestic capital transfers and abroad capital transfers of related municipalities.

Lending: It is composed of domestic lending expenditures and abroad lending expenditures of related municipalities.

Expense items of all municipalities in Turkey and expense items of Gaziantep Metropolitan Municipality are shown in Table 3.

Table 3: The Expense Items of Metropolitan Municipalities

Expense Items of Metropolitan Municipalities	Metropolitan Municipalities in Turkey		Gaziantep Metropolitan Municipality	
	2008(1,000)	2009(1,000)	2008(1,000)	2009(1,000)
Personnel Expenditures	1,169,233	1,300,164	25,653	23,955
Social Security Association Government Premium	180,263	215,795	635	4,269
Purchases of Goods and Services	3,018,959	3,195,186	237,290	170,553
Interest Expenditures	470,745	710,389	5,289	14,416
Current Transfers	681,615	839,004	8,152	3,871
Capital Expenditures	6,382,677	5,639,049	16,147	16,432
Capital Transfers	59,667	466,575		1,662
Lending	350,286	1,296,432		2,293
Total	12,313,445	13,662,594	293,167	237,451

The total expenses of metropolitan municipalities in Turkey increased for 10.9% from 2008 to 2009. The total expenses of Gaziantep Metropolitan Municipality decreased for 19% from 2008 to 2009. The major share in total expenses is capital expenditures (41.27%) in metropolitan municipalities in Turkey. The major share in total expenses is purchases of goods and services (71.8%) in Gaziantep Metropolitan Municipality.

THE INCOME ITEMS OF LOCAL GOVERNMENTS

Tax Incomes: It is composed of property (building, land) tax, environment cleanup tax, communication tax, electricity and coal gas consumption tax, entertainment tax, fire insurance tax, advertisement tax, building construction fee, business start allowance fee, structure using allowance fee, inspection fee of weight and dimension tools, inspection fee of cutting animals, occupation fee, spring water fee, working in holidays fee, brokerage fee and other fee taken from related municipalities (Arnaboldi and Lapsley, 2009).

Enterprise and Ownership Incomes: It is composed of:

- Incomes acquired from the sales of specifications, printed document, valuable paper and book,
- Incomes related to natural gas services, incomes related to water services, car parking management incomes, social facilities management incomes, advertisement incomes, inspection auditing and control fees, incomes related to health services and incomes acquired from transportation services,
- Corporation revenue and profit related to water, transportation, health, education, natural gas, agricultural, environment and economical services,
- Movable rent incomes,
- Other various enterprise and ownership incomes.

Received Grants and Helps and Special Incomes: It is composed of:

- Grants received from World Bank and European Union,
- Grants and helps received from administrations inside central management budget,
- Grants and helps received from other administrations,
- Grants and helps received from foundations and individuals,
- Grants and helps received from projects.

Interests, Shares and Penalties:

- Interest incomes are composed of; interest incomes acquired from given loans, interest incomes of foundation receivables, interest incomes of securities and delayed payments, interests of deposits, picture and delayed fee interests and other interest incomes.
- Share incomes are composed of; shares received from tax and fee incomes, shares of partaking management expenses, shares of partaking public expenditures, incomes acquired from mine firms, incomes acquired from shares of municipalities like museum entrance fees.
- Penalty incomes are composed of; managerial fines, tax penalties, cash cautions recorded as income, field incomes, bonds and common stocks recorded as income and letters of guarantee.

Capital Incomes: It is composed of:

- Incomes acquired from the sales of real estate like buildings and land,
- Incomes acquired from the sales of movables,
- Sale incomes of securities and properties.

Collection from Receivables: It is composed of collections made by related municipalities from general budgeted administrations, municipalities and other domestic receivables.

Shares Received from General Budget Tax Incomes: It is composed of shares received from general budget tax incomes.

Income items of all municipalities in Turkey and income items of Gaziantep Metropolitan Municipality are shown in Table 4.

Table 4: The Income Items of Metropolitan Municipalities

Income Items of Metropolitan Municipalities	Metropolitan Municipalities in Turkey		Gaziantep Metropolitan Municipality	
	2008(1,000)	2009(1,000)	2008(1,000)	2009(1,000)
Tax Incomes	260,409	249,378	4,907	8,167
Enterprise and Ownership Incomes	946,327	1,348,917	43,776	38,930
Received Donation and Helps and Special Incomes	52,812	37,992	705	3,933
Interests, Shares and Penalties	8,160,677	8,554,912		
Capital Incomes	415,820	465,096	33,241	8,997
Collections from Receivables	24,087	678,999		
Shares Received from General Budget Tax Incomes	678,999	6,473,072	133,914	186,552
Total	10,539,131	17,808,366	133,914	246,579

The total incomes of metropolitan municipalities in Turkey increased for 68.9% from 2008 to 2009. The total incomes of Gaziantep Metropolitan Municipality increased for 84.13% from 2008 to 2009. The major share in total expenses is interests, shares and penalties (48%) in metropolitan municipalities in Turkey. The major share in total incomes is shares received from general budget tax incomes (75.6%) in Gaziantep Metropolitan Municipality.

CONCLUSION AND SUGGESTIONS

Accrual Basis Government Accounting System has been administrated since 2006. Despite the problems of this accounting system, there are lots of benefits of using this system. Financial statements have become more clear, comparable and accurate after the transformation of Cash Basis Government Accounting System to Accrual Basis Government Accounting System. Municipalities determined their incomes and expenses according to budget results in cash basis government accounting system. So, they used to have redundant interest loads. Since accrual basis government accounting system came into force, the incomes and expenses of municipalities have been able to be observed certainly and accurately. Also, it prevents having redundant interest loads. With the transformation to accrual basis government accounting system, the accounting of the state has been able to fulfill the major functions expected of it. A single type of accounting system has been established in the public sector and information has started to accumulate in one center. With the help of this system, information as detailed as expected can be produced in the government accounting. With the help of the new accounting plan, incomes and expenditures can be detailed as expected and fiscal transparency and accountability can be established. In this study, Gaziantep Metropolitan Municipality is compared to other metropolitan municipalities in Turkey in terms of their 2008-2009 financial structures, expenses and incomes. The total incomes of Gaziantep Metropolitan Municipality in 2009 increased for 84.13% when compared to 2008, and its expenses decreased for 19%.

The incomes of the other metropolitan municipalities in Turkey in 2009 increased for 68.9% when compared to 2008, and their expenses increased for 10.9%.

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