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## THE BUDGET CLASSIFICATION AS THE BASIS OF THE USAGE OF THE METHOD OF ACCRUAL IN THE PUBLIC SECTOR

*Components of the budget classification of Ukraine, which are used for accounting and administration of budgets of different levels, have been investigated. The five-level hierarchy of normative documents in accordance with international practice has been proposed. The analysis of the budget classification of Ukraine and of that one, which has been developed in accordance with the IMF GFSM 2001, has been done as the basis for implementation of the method of accrual in the public sector. Proposals on the improvement of the budget classification and the method of accrual have been made.*

**Keywords:** budget; budget classification; method of accrual.

**Formulation of the problem in general and its connection with important scientific (practical) tasks.** Successful functioning of the economy of any country contributes to optimal ensuring of formation and fulfillment of budget, the important components of which are classification of income and expenses and usage of the method of accrual. The structure of income reflects tax public policy, expenditures – priority directions of investment of money. Accounting in the public sector is under control of the state (the Ministry of Finance of Ukraine, hereinafter – the MFU), which provides general methodological guidance for its orderliness, ensuring uniformity and comparability.

According to the "Strategy for modernization of the system of accounting in the public sector for 2007-2015 years" (hereinafter – the "Strategy") [1], subjects of the public sector are: the MFU, administrators of budgetary funds, the State Treasury Service of Ukraine and funds of obligatory state social and pension insurance. The definition of common approaches to accounting for all subjects of the public sector provides adjustment of both accounting and control of budgetary funds flow during the whole chain. That is from the source of income to the final recipient.

**Analysis of recent research and publications on the problem that is under consideration.** In economic literature a significant contribution to the theoretical research of budgetary classification of income and expenses, and also to their accounting, which is built on the legal framework for subjects of public sector, has been done by famous economists, namely: M.H. Bielov, M.T. Bilukha, V.V. Burtsev, L.V. Hizatulina, R.T. Dzhoha, T.I. Yefimenko, S.O. Levyt'ska, L.H. Lovynska, M.H. Mykhailova, S.V. Svirko, N.I. Sushko, I.B. Stefaniuk, O.O. Chechulina, V.M. Fedosov and others. Analysis of their publications indicates the absence of proposals on improving the system of legal regulation in Ukraine, the budget classification in accordance with the IMF GFSM 2001 and the method of accounting.

**Unsolved aspects of the general problem.** The reform of administration of public finances and reconstruction of accounting and reporting, which is connected with it, causes the need to make changes in the system of legal regulation in Ukraine. That is, its improvement on the basis of international practice and distribution on relevant hierarchical levels. Today there is the transformation of the national accounting system, whose main objective is to ensure transparency of accounting and reporting in general in order to increase the efficiency of budget expenses and quality of administration of the budget process. In order to fulfill this task, it is important to follow harmonization of accounting rules and procedures concerning all economic categories, which must be classified according to the IMF GFSM 2001 p. [2]. At this stage of reforming, arose the necessity to change both the budget classification and also the accounting methodology and their integration. This will

let to move to the medium-term financial planning and budgeting, which is result-oriented.

The budget classification in Ukraine, which is the basis of accounting, is a grouping of income, expenses and sources of funding budget deficits at all levels of the budget system, types of the state debt and state assets.

In the process of reforming of accounting it is provided the usage of developed and approved National (Regulations) Standards of Accounting in the Public Sector (hereinafter – N(R)SAPS) [3] on the basis of International Financial Reporting Standards for the Public Sector (hereinafter – IFRSPS) [4], based on the method of accrual. The research of legal, scientific and methodological support of the usage of the method of recognition of income and expenses in accounting of the public sector of Ukraine shows that it is almost absent in legislation and in practice. Especially it touches upon such terms as "cash method", "method of accrual", "modified cash method", "modified method of accrual". Analysis of the current regulatory framework shows that only certain documents (the "Regulation on organization of accounting and reporting on implementation of the state and local budgets in the bodies of the State Treasury Service of Ukraine" [5], "The Budget Code of Ukraine" (hereinafter – BCU) [6], the Decree of the Cabinet of Ministers of Ukraine [1]) mention the use of the cash method and accordingly the accrual method. Nevertheless, they do not indicate the mechanism of implementation of these methods.

**The goal of this article** is to improve the legislative base, the budget classification in accordance with the requirements of the IMF GFSM 2001 and substantiation of the method of accrual for accounting in the public sector.

**Presentation of the basic material of the research with full justification of scientific results.** A key position in the public sector belongs to the budget process, which according to the BCU [6] consists of the following stages: drafting budgets; consideration of the draft and adoption of the law on the state budget for the certain year (local budget decision); implementation of the budget, including making amendments to the law on the state budget (local budget decision); preparation and review of the report on the implementation of the budget and making decision on its implementation. The MFU as the major participant in the budget process determines the overall level of budget income, expenses and loans and evaluates the volume of its financing for drafting the project of the state budget for the next year.

The budget expenditure is formed considering indicators, which have been included by major administrators of budget funds to budget requests. The MFU analyze budget requests in order to detect the compliance to purpose, to priority, and to efficient use of budget funds. The decision on the inclusion of the budget request to the draft of the state budget is made basing on the results of this analysis.

Preparation of drafts of local budgets is done by the procedure, which is defined by the Article 75 of the BCU [6].

Execution of the budget is in provision of the State Treasury Service of Ukraine under the Single Treasury Account opened at the National Bank of Ukraine, receipts of planned income and implementation of expenses, planned in the budget (Art. 43 of the BCU [6]).

Since all stages of the budget process are interconnected, then each of them must ensure the authenticity and objectivity of accounting and control. Today the system of laws and regulations, that directly or indirectly regulate accounting in public sector of Ukraine consists of: the Constitution of Ukraine; the BCU; the Law on State Budget for the current year; other laws that regulate budgetary relations (in accordance with Art. 1 of the BCU); normative and legal acts of the Cabinet of Ministers, the bodies of executive power; decisions of state administrations on the local budget.

During the period of strengthening of market relations in Ukraine, the establishment and improvement of the legislative framework takes its place. Basing on the analysis of international experience of the development of accounting system and considering traditions and positive experience of domestic regulation, one should provide five-level hierarchy of regulations.

**The first level** consists of the BCU [6], the Civil Code of Ukraine [7], the Labor Code of Ukraine [8], Decrees of the President of Ukraine, Resolutions of the Cabinet of Ministers of Ukraine, the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" [9] and other laws etc. The BCU [6] determines the legal principles of functioning of the budget system of Ukraine, its principles, basics of budget process and intergovernmental relations and responsibility for violation of the budget legislation. For example, the Civil Code of Ukraine [7] determines the most important accounting standards in the institution (the presence of the independent balance in each entity; mandatory approval of the annual financial statement; the procedure of registration, reorganization and liquidation of organization, etc.); in the Labor Code of Ukraine [8] – the legal basis for relations between employers and employees in the field of work and its payment; in the BCU [6] – budget processes in the sector of public administration. The law "On Accounting and Financial Reporting in Ukraine" [9] defines: the concept of accounting and its objects, main requirements and rules, the order of regulation and organization; rules of organization of analytical and synthetic accounting, its registers; the order of evaluation of assets and liabilities, their stocktaking, preparation and presentation of financial reporting.

Documents of the first level fix obligatoriness of the common approach of all economic entities to accounting, the basic requirements for its organization, formulate rules and procedures. This group also includes documents that legally determine peculiarities of accounting depending on the legal form of the entity.

**The second level** should be carried out during 2015-2016 years by means of introduction of N(R)SAPS [3] and instructions on accounting and reporting of the Ministry of Finance of Ukraine that were prepared on their basis. In order to do this, in our opinion, it is important to prepare the draft of the "Instruction on the usage of the Chart of Accounts of Accounting in the Public Sector" and to update the "Instruction on the order of preparation and presentation of annual, quarterly and monthly budget reporting". These regulations of the Ministry of Finance of Ukraine will form a single state accounting policy for all agencies of the sector of public administration: the order of accounting and reporting; recording in the accounts of transactions on the implementation of budgets; correspondence of accounts of accounting; other issues of organization of accounting.

**The third level** will provide drafting of regulations on questions of accounting and reporting, that are issued by the authorities that organize the implementation of the respective budget, budgets of state trust funds as well as regulations of local authorities of executive power, which will have powers to regulate certain questions of accounting and reporting.

**The fourth level** will consist of regulations that are applied by main administrators of funds of the budget of the corresponding level considering branch features. They should include: the order on accounting policy of institution, the working plan of the chart of accounts, the regulations on labor and its motivation, job descriptions, instructions on stocktaking, etc., that are developed on the basis of current legislation and regulations.

**The fifth level** of regulation includes working papers of institutions of the public sector: the order of the head on approval of the schedule of circulation of documents; the order on stocktaking of assets and liabilities and etc.

We believe that the proposed five-level hierarchy of formation of regulations will facilitate their ordering in accordance with international practice; the budget classification of revenues and expenditures, the content of which is based on provisions of the IMF GFSM 2001 [2], and will facilitate the introduction of the method of accrual.

The budget classification is used for accounting of the public sector and for implementation of budgets. Comparability of indicators of budgets of all levels of the budget system of the country is achieved on its basis. The current budget classification of Ukraine is designed with consideration of requirements of the IMF GFSM 1986, the content of which has been insignificantly changed. The structure of the budget classification, its types and characteristics, approved by the BCU, were systematized in the table 1.

The IMF GFSM 2001 [2] developed new approaches to classification of income of the public sector and submitted the following classification tables: economic classification of expenses; classification of expenses by functions of bodies of public administration, functional classification of expenses; cross-classification of expenses.

**Table 1. The structure of the budget classification of Ukraine**

Budget classification	Types of classifications	Purpose of classification
<i>Classification of the budget income</i>		Grouping of income of budgets of all levels
Classification of budget expenses and crediting	Functional classification of budget expenses and crediting	Grouping of expenses of budgets of all levels, represents the direction of budget funds on fulfillment main functions of the state and solving questions of local meaning
	Economic classification of budget expenses	Grouping of expenses of budgets of all levels by their economic content (represents types of financial operations, which help the state to fulfil its functions in both inside the state and outside its borders)
	Departmental classification of budget expenditures and crediting	Contains the list of key administrators of budget funds for systematization of expenditures and crediting of the budget on the basis of key administrator of budget funds

Table 1. Continued

Budget classification	Types of classifications	Purpose of classification
Classification of budget financing	Classification of financing of budget by the type of creditor	Grouping of financial resources for deficiency payment of the budget and directions of their spending, that came into being in the result of the profit of the budget by categories of creditors or owners of debt obligations
	Classification of financing of budget by the type of debt obligation	Grouping of financial resources that are important for deficiency payment of the budget and directions of their spending, that came into being in the result of the profit of the budget
Classification of debt	Classification of debt by the type of creditor	By the type of the creditor classifies information on all debt obligations of the state, of the local community of the city
	Classification of debt by the type of debt obligation	Grouping of debt obligations of the state by the type of debt obligation

Source: compiled basing on [6].

**Economic classification of expenses.** In case of classification of data on expenses by the IMF GFSM 1986 according to the IMF GFSM 2001 [2] it is necessarily to have additional information for making adjustments with taking into account the following: in the IMF GFSM 2001 [2] operations of subjects of the public sector are accounted by gross basis, i.e. their gross income are classified under the relevant categories of income and gross expenditure – by the relevant categories of expenses. In the IMF GFSM 1986 operations of subjects of the public sector are recorded on a net basis. Income (from business and property) or expenses (current transfers) include only actual profit or loss of departmental entities. That is why, when using non-adjusted data of the IMF GFSM 1986 income and expenses will be underestimated.

Analysis of article-by-article comparison of economic classification of expenses by the IMF GFSM 1986 and the IMF GFSM 2001 shows their differences. Thus, remuneration of labor of employees, unlike the IMF GFSM 1986, in the IMF GFSM 2001 social payments, accrued by the government as employer, are not eliminated in case of consolidation of relevant data with data on social security funds. The usage of goods and services, due to the inclusion of payments of expenses, related to the property, except interests, the category of the IMF GFSM 1986 "other purchase of goods and services" approximately corresponds with the category of the IMF GFSM 2001 "the usage of goods and services". In the IMF GFSM 2001, expenses related to property, except interests, belong to separate category "other expenses", subcategory "expenses associated with the property, except interests". The equivalent of aggregated total expenses on goods and services of the IMF GFSM 1986 is absent in the IMF GFSM 2001. In practice, the concept of accounting by the method of accrual "the usage of goods and services" is estimated by deduction of change in stocks of raw materials (are non-strategic stocks) from the value of made purchases. In the system of accounting by the cash method of the IMF GFSM 1986 all purchased raw materials are considered to be "used" at the moment of payment for them, i.e. in the IMF GFSM 1986 the change in inventories of tangible current assets, except for strategic inventories, is equal to zero.

Interests are made of their payments. The concept of accounting by the method of accrual "conventionally calculates interest payments", as it is provided under the methodology of the IMF GFSM 2001 (absent in the system of accounting by the cash method of the IMF GFSM 1986). Subsidies, due to the inclusion of actual loss of departmental enterprises from realization of goods and services to the public, according to the IMF GFSM 1986 almost correspond to the category of subsidies of the IMF GFSM 2001. But in the IMF GFSM 2001 gross expenses of subjects of the public sector relate to different categories of expenses. Grants consist of: current and capital transfer payments to

the national bodies of other levels of public administration, current and capital transfer payments to foreign bodies of public administration, international organizations and supranational bodies. The structure of these categories according to the IMF GFSM 1986 does not provide opportunities for full classification by subcategories of grants of the IMF GFSM 2001 in connection with the absence of differentiation between grants of governments of foreign states and international organizations. This differentiation needs additional information from specific countries.

Social benefits consist of: current transfer payments to households. The category "current transfer payments to households" almost meets social benefits, since it includes transfers that are not considered in the capacity of social benefits in the IMF GFSM 2001 (for example, scholarships and textbooks for education). Categories of expenses of the IMF GFSM 1986 do not provide data on expenses, which are classified as social assistance (for building proper classification in accordance with categories of the IMF GFSM 2001 additional information is required).

Other expenses include: current transfers; payments to non-profit organizations; other current transfers, transferred abroad; capital transfers inside the country to non-financial state enterprises, financial institutions, other companies; other capital transfers transmitted inside the country, and separately capital transfers transferred abroad. These categories of the IMF GFSM 1986 roughly correspond with category of the IMF GFSM 2001 "other expenses", as in the IMF GFSM 1986 data on expenditures, related to property, except interests, are not allocated as a specific category.

**Classification of expenses by functions of bodies of public administration** (hereinafter – CFBPA) is a detailed classification of functions, or socioeconomic tasks, which intend to solve the units of sector of public administration through different types of spending, and is one of four classifications (classification of expenses by goals). CFBPA can be applied to public expenses of net acquisition of non-financial assets (i.e. the difference between acquisition and disposal). In totality they are called expenses of bodies of public administration.

Classification codes of CFBPA somewhat differ from the structure of other classification codes. Functions of categories of expenses are classified by the three-level scheme. In order to do this, one distinguishes 10 categories of the first level, or categories with two-digit code, that are called sections. Examples of these sections are health care (section 07) and social security (section 10). One must single out several groups or categories with three-digit code, such as hospital services (073), disease and disability (101), in frames of each section. Each group consists of one or more classes or categories with four-digit code, such as services of health centers and houses for those who recover (0734) and disabled (1012). All expenses, connected with execution of the certain function,

are combined into one category of CFBPA, regardless the way of realization of expenses.

CFBPA allows to investigate in time the dynamics of public expenses on the implementation of certain functions or goal. Traditional accounts (reporting) of bodies of public administration are usually unsuitable for this, as they reflect the organizational structure of bodies of public administration. Temporary rows can be misrepresented not only because of organizational changes, but also due to the fact, that at some moment of time, some organizations may be responsible for the execution of several functions at once, and the obligation to implement a single function can be distributed among several organizations.

Despite the fact that classifications of the GFSM 2001 / CFBPA and of the GFSM 1986 are very similar, there are also significant differences, which can be summarized as follows.

GFSM 2001 does not include the category "expenses, not classified by major groups". Articles, which are classified in the GFSM 1986 as expenses, not classified by major groups, in the GFSM 2001 are classified as "public services of common designation". The GFSM 2001 includes the new category "environmental protection". The GFSM 1986 does not provide separate classification of these types of expenses, but some of them, particularly related to environmental protection, are included in the category of "housing and communal services".

The GFSM 2001 classifies expenses on research and development (hereinafter – R&D) as a separate group (sub-category) in the structure of each section (main category). Most parts of sections of the GFSM 1986 / CFBPA do not single out expenses for R & D as a separate category. In case of classification of data on expenses of the GFSM 1986 in accordance with the base of the GFSM 2001 it is important to acquire additional information in order to make adjustments by taking into account the following.

The GFSM 2001 **provides conditional reassignment** ("rerouting") of fees / assessments for social needs, accrued by the government as an employer, as if the bodies of public administration paid their employees, who would have made then payments in the same amounts in programs of social insurance. As a result, these fees / charges

are not excluded during consolidation. In the GFSM 1986, social charges, accrued by the government as an employer, are excluded during consolidation of data on bodies of public administration, as it is believed, that these operations are carried out between the level of public administration that makes charges and social insurance fund.

During classification of consolidated data of the GFSM 1986 for prior periods in accordance with the basics of the GFSM 2001, there is no possibility to get the data on these social payments accrued by the government as an employer, as they have already been excluded during consolidation. It is important to get detailed information about specific countries in order to include social charges, accrued by the government as an employer. At the same time, indicators of income cash inflows from operating activities of bodies of public administration and related cash payments will be greater than the data on income and expenses in the GFSM 1986, have the same institutional coverage.

**Cross-classification of expenses.** The GFSM 2001 may have cross-classification of economic and functional classification of expenses. Except data for each type of spending, it is provided for recording of acquired non-financial assets. There are no similar operations in Ukraine.

Thus, program classification is one of the tools of the budgeting system, focused on results, is an ordered list of related projects (types of activities) on fulfillment of specific tasks and achievement of the stated goal. Program classification is applied then, when bodies of state authority and local self-government attach importance not only to the volume of resources spent during the implementation of the fiscal policy, but also to goals, results and impacts of such a policy. At the same time, results and consequences of activity of bodies of state authority and local self-government are estimated by the community on the fulfillment of tasks and achievement of stated goals of fiscal policy.

The conducted analysis of the term of implementation of the budget classifications in different countries (table 2) testifies that Georgia (1996–1997) and Moldova (1996) were the first to implement the budget classification. Tadjikistan (2005, 2010) and Kirghizia (2007) were the last to implement the budget classifications of different types.

**Table 2. The introduction of the budget classification by countries, year**

	Albania	Armenia	Azerbaijan	Georgia	Kazakhstan	Kosovo	Kirghizia	Moldova	Montenegro	Serbia	Tadjikistan	Ukraine
Economic	2001	2008	2005	1996	1997	2000	2007	1996	2002	2002	2005	2001
Functional	2002	2008	2005	1996	1997	-	2007	1996	2002	2002	2005	2001
Organizational / administrative	2002	2008	2005	1997	1997	2000	2007	1996	2002	2002	2010	2001
Classification of sources of funding	2002	-	-	1996	1997	2000	-	1996	2002	2002	2010	2001
Program	2002	2004	-	1997	-	2000	-	2003	2004	2006	-	2001
Other	-	-	2005	1996	-	2005	-	-	2007	2006	-	2001

Source: compiled basing on [10].

Conducted researches in twelve countries in terms of the use of types of the budget classification indicate that the economic classification is used in 12 (100%) surveyed countries, functional – in 11 (91.7%), organizational / administrative (departmental) – in 12 (100%), sources of

funding – in 7 (58.3%), program classification – in 7 (58.3%) surveyed countries. Full information and additional types of the budget classification by countries are listed in the table 3.

Table 3. Application of types of the budget classification in different countries

	Albania	Armenia	Azerbaijan	Georgia	Kazakhstan	Kosovo	Kirghizia	Moldova	Montenegro	Serbia	Tadzhikistan	Ukraine
Economic	+	+	+	+	+	+	+	+	+	+	+	+
Functional	+	+	+	+	+		+	+	+	+	+	+
Organizational	+	+	+	+	+	+	+	+	+	+	+	+
Classification of sources of financing	+				+	+			+	+	+	+
Program	+	+				+		+	+	+		+
Other	Albania – geographical (regional, municipal and communal levels); Azerbaijan – profitable; Georgia – classifications of financial assets, nonfinancial and attracted assets; Kosovo – project; Moldova – special funds of the register: donors of investment subjects; Montenegro – project; Serbia – subprogram; Україна – profitable, temporary classification of expenditures and credit financing of local budgets.											

Source: compiled basing on [10].

Conducted survey of representatives of 12 countries concerning plans to change / replace any segment of the budget classification indicates that in the next 3-5 years plans to change / replace / add any segment of the budget classification exist in 8 of 12 surveyed countries (66.7%). Economic segment is planned to be changed / replaced / added in 4 countries (Azerbaijan, Moldova, Tadzhikistan, Ukraine – 33.4%); functional – in 3 countries (Azerbaijan,

Moldova, Tadzhikistan – 25%); organizational / administrative – in 5 countries (Albania, Azerbaijan, Kyrgyzstan, Moldova, Ukraine – 41.7%); sources of funding – in 1 country (Moldova – 8.4%). Program element is planned to be implemented in 7 countries (Albania, Georgia, Kirghizia, Moldova, Serbia, Tadzhikistan, Ukraine). Other segments – 2 countries (Azerbaijan, Tadzhikistan – 16,7%). Data of the conducted survey are presented in the table 4.

Table 4. Generalized information about change / replacement of the segment of budgetary classification on different countries

	Albania	Armenia	Azerbaijan	Georgia	Kazakhstan	Kosovo	Kirghizia	Moldova	Montenegro	Serbia	Tadzhikistan	Ukraine
Yes/no									no			
Economic		-	* in 2010		-	-		** in 2012			* in 2012	* in 2012
Functional		-	* in 2010		-			** in 2012			*	
Organizational / administrative	* un-identified	-	* in 2010		-		* in 2011	** in 2012				** in 2011
Classification of sources of financing		-			-			** in 2012				
Program	** un-identified	-		** in 2010, 2012	-		** un-identified	** in 2012		** in 2013	** in 2011	** in 2014
Other			* Prfitable, in 2010								** territorial segment 2012	

Note: \* – change; \*\* – implementation.

Source: compiled basing on [10].

Conducted analysis of the budget classification testifies the need to improve the current budget classification of Ukraine in accordance with the IMF GFSM 2001. This will serve as a basis for the introduction of the method of accrual in the public sector, preparation and presentation of accounting statistical information (about the fiscal system by structured institutional sectors, segments of national economy, with separate singling out of sector of public administration). Most countries of the world took the IMF GFSM 2001 as the basis of accounting in the public sector and conducted public administration reform in accordance with international standards of financial statistics, established in the IMF GFSM 2001.

International Federation of Accountants formulated four basic accounting methods during the process of the development of IFRSPS [11]:

- cash method (provides for registration of all events in accounting by cash flow, reduces to accounting of earnings and cash outflow in the accounts of the budget (at the same time, no assets and liabilities, except budget funds, are recorded in accounting);
- modified cash method (gives the opportunity to register both operations on cash flow of budgets and additional assets and liabilities);
- modified method of accrual (provides accrual of income and expenses and their recognition during transaction (at this time depreciation is not charged, non-financial assets and assets are written off to expenses immediately after acquisition);

- method of accrual (recognition of all transactions at the moment of their occurrence and write-off of assets to expenses proportionally throughout the all term of useful life).

Thus, the cash method of accounting involves the recognition of transactions on the basis of analysis of used resources and the method of accrual – the change of economic value of assets and liabilities. Under the method of accrual accounting objects are: assets, liabilities, income, expenses, financial result or net value, accounts of accounting of limitation (authorization) of expenses and legal liabilities. Under the cash method accounting objects are: cash receipts, cash outflow, financial result and calculations, financial assets and liabilities related to cash receipts and outflow, as well as accounts of accounting of limitation (authorization) of expenses and legal liabilities.

During the usage of the cash method, expenses and income are taken into account only when they are connected with monetary transactions.

Cash method has a number of advantages: easiness of usage helps to simplify operations during the preparation of reports (it allows to guarantee timeliness of its preparation, reliability and comparability); gives the opportunity to evaluate compliance of expenses to assignments from the budget (consistency of income and expenses); does not require high skilled workers of accounting services.

Despite its simplicity, cash method has several disadvantages and limitations: subjectivity in determination of the time of registration or recognition of transaction; the limited coverage of operations by cash flows of the reporting period; failure to satisfy the need for information on assets, liabilities, impact of current consumption on stocks of assets; absence of identification of debt liabilities if there are payables and receivables at the end of the reporting period; mismatch of goals of monitoring of the quality and efficiency of activity of public authorities and of assessment of effectiveness of implemented programs.

According to definition of IFRSPS, the method of accrual is a method of accounting whereby all transactions and events are recognized when they occurred, not at the moment of reception or payment of cash or cash equivalents (which is done according to the cash method). Accordingly, transactions and events are registered in accounting registers and are reported in financial statements of those periods to which they relate. Under the method of accrual, transactions that increase the value of assets are considered as income, in turn operations that reduce net assets are considered as expenses. The method of accrual takes into account transaction, in particular transaction at the time of their realization, regardless of income or expenditure of funds from the account, in other words, transactions are accounted at the moment of appearance of commitment, not at the moment of payment.

The method of accrual has a significant advantage compared to other methods of accounting due to the fact that it allows to display the real economic situation: registration or recognition of expenses at the moment of their commitment; records of all resource flows, including those that do not give rise to cash flows, but also affect the cost of services (such as depreciation of fixed assets); the possibility to obtain information on the status of assets and liabilities; existence of separate accounting of cash flow and legal obligations related to it, but inconsistent in the interim period (reception of the cash flows and the right of their reception, disbursement of cash and legal obligation to pay out cash); possibility of accounting of non-cash transactions, such as mutual offsets, creation of reserve and payment of accounts payable.

Successful implementation of the use of the accrual method in accounting of the public sector depends on the use, first of all, of the terminology according to the Glossary of terms of IFRSPS, prepared in the book "International Financial Reporting Standards of the Public Sector" (published in 2010, official translation – 2012). Analysis of the presented terms [12] indicates that of 226 terms (presented in Articles of IFRSPS), only 52, i.e. 23%, comply with terminology prescribed in N(R)SAPS. Another 63 terms are fixed in N(R)SAPS, but they do not meet the definition of IFRSPS (they take into account merely national peculiarities and traditions of Ukraine). In other words, only 155 (52 + 63) terms, presented in Glossary, were determined (51% [115 : 226] from the total quantity). The remaining terms – 111 (226 – 115), or 49%, were not included in the N(R)SAPS.

Accounting procedures during application of the method of accrual reflect the nature of operations and economic events. In the result of this the validity, neutrality, timeliness, completeness and comparability of accounting data increase, as they allow to get comprehensive information about costs, promote the adoption of more informed decisions about resource allocation; increase the responsibility of managers for results of management (there is monitoring of ratio between the value of services and the costs for their provision). Recording in accounting by means of the method of accrual of non-cash transactions that affect transactions in the public sector, will let to determine actual costs for them and to ensure transparency of information.

**Findings of this research and perspectives of further developments in this area.** Thus, conducted researches indicate that the development of the revised budget classification and the introduction of the method of accrual in Ukraine must be directed to:

1. Re-orientation of budgets to the achievement of final results, including by means of increasing the independence and accountability of participants of the budget process at all levels of budget system and administrators of budget funds.

2. Bringing the structure of functional classification of expenses in line with the basic functions, performed by public authorities (local authorities).

3. Reconciliation of the budget classification with international standards of financial reporting and statistics of public finances and creation of conditions for implementation of integrated budget classification with the Chart of Accounts in the Public Sector [13], based on the method of accrual, which will provide an objective assessment of the financial result (profit or deficit) of activity of the sector of public administration.

4. Bringing the structure of the budget classification in line with economic content of operations in the public sector; its improvement (in terms of revenue classification, economic classification of expenses and classification of sources of financing) and concordance with the Chart of Accounts for the Public Sector [13]. This will give the opportunity to: automate accounting in full; to ensure the unity of budget accounting during the performance of budgets of all levels; to differentiate objects of competence and power between central and local authorities, state authorities and local self-government, system of giving social benefits, changes in the fiscal area; to make an assessment of activity of the sector of public administration.

5. The introduction of the method of accrual in accounting in order to ensure transparency in the fiscal sphere and increase the responsibility of individuals for its implementation. Considering this, it is necessary to develop the Plan of

measures of gradual introduction of the method of accrual per objective for administrators of budgetary funds and funds of obligatory state social insurance and pensions and to carry out its implementation since 2016 (after reviewing of the regulatory framework – the preparation, as it was noted earlier, of the draft of the "Instruction on the Use of the Chart of Accounts in the Public Sector" [14] and updating of the "Instruction on Compiling and Rendering of annual, quarterly and monthly budget reporting". The content of these documents should include rules and procedures on the use of National Accounting Standards (N(R)SAPS). At the initial stage on operations on implementation of the state and local budgets it would be appropriate to use the cash method with its gradual approach to the method of accrual.

6. Convergence of national terminology to international one, it is necessary to introduce it gradually into the Codes – the Budget, the Civil, the Labor Code of Ukraine, the Law "On Accounting and Financial Reporting in Ukraine", N(R)SAPS and other regulations concerning accounting objects.

7. Preparation of Guidelines for effective usage of budget funds in the public sector (there should be general approaches) and in the context of administrators of budgetary funds (taking into account the specificity of their activity).

8. The development and adoption of common approaches to formation of the Depreciation Rates in the Public Sector, and concerning each subject of the public sector – the development of branch Depreciation Rates and the Guidelines on Their Application (before the implementation of N(R)SAPS 121 "Fixed Assets" and N(R)SAPS 122 "Intangible assets" depreciation was not charged).

Implementation of these measures will contribute to the implementation of the budget classification in accordance with the requirements of the IMF GFSM 2001 and the phased introduction of the method of accrual in the public sector.

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### БЮДЖЕТНА КЛАСИФІКАЦІЯ ЯК ОСНОВА ЗАСТОСУВАННЯ МЕТОДУ НАРАХУВАННЯ В ДЕРЖАВНОМУ СЕКТОРІ

*Досліджено складові бюджетної класифікації України, що використовується для ведення бухгалтерського обліку та виконання бюджетів різних рівнів. Запропоновано п'ятирівневу ієрархію нормативних документів відповідно до міжнародної практики. Зроблено аналіз бюджетної класифікації України та розроблено відповідно до IMF GFSM 2001 р., як основу для застосування методу нарахування в державному секторі. Внесено пропозиції щодо вдосконалення бюджетної класифікації та методу нарахування.*

*Ключові слова:* бюджет; бюджетна класифікація; метод нарахування

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### БЮДЖЕТНАЯ КЛАССИФИКАЦИЯ КАК ОСНОВА ПРИМЕНЕНИЯ МЕТОДА НАЧИСЛЕНИЯ В ГОСУДАРСТВЕННОМ СЕКТОРЕ

*Исследованы составные бюджетной классификации Украины, которая используется для ведения бухгалтерского учета и выполнения бюджетов различных уровней. Предложена пятиуровневая иерархия нормативных документов в соответствии с международной практикой. Проведен анализ бюджетной классификации Украины и разработанной в соответствии с IMF GFSM 2001 г., как основа для использования метода начисления в государственном секторе. Внесены предложения по совершенствованию бюджетной классификации и метода начисления.*

*Ключевые слова:* бюджет; бюджетная классификация; метод начисления.