

Framing financial accounting, budgeting and macroeconomic statistics

Yuri Biondi

Senior Tenured Research Fellow, CNRS, France

Research Director, Financial Regulation Research Lab, Paris, France

<http://yuri.biondi.free.fr/>

Workshop on public sector accounting: “Better Accounts, Better Budgets, Better Spending?”

European Court of Auditors,
Luxembourg, 25-26 January 2016



EUROPEAN
COURT
OF AUDITORS

My speech

Government finance statistics (GFS) and financial accounting: strangers or brothers?

The case of Excessive Debt Procedure

A conceptual analysis: financial accounting models; pension obligations; financial liabilities measurement

Government finance statistics and financial accounting: strangers or brothers?

Conceptual divergence:

In contrast to the interest economists have in society and the individual people who make up society, accounting has seldom sought to serve individuals separate from a business enterprise and has never aspired to attempt to classify economic action for the whole of a nation. These are inherent differences and both parties would do well always to bear them in mind.

Littleton, A. Charles (2011), 'Economists and Accountants',
Accounting, Economics, and Law: A Convivium

Statistics aims to measure phenomena. Accounting aims to control them.

Instrumental dependency:

France: Plan Comptable General (PCG)

Germany: Kontenrahmen

European Union: ESA/Eurostat

European Union: The case of budgetary supervision of Member States

Use of statistical measurements to supervise and control Member States

Example: Excessive Deficit Procedure

Conceptual conundrum:

⇒ Difference between measuring an earthquake and provoking it (Bloch)

Instrumental dimension:

⇒ Combining budgetary measurements (deficit and debt) and statistical measurements (GDP)

A Conceptual Analysis: Which financial accounting model?

Even if we argue for accrual basis of accounting for the public sector, this does not address the critical issue that several accrual-based models of accounting exist.

Which accrual basis? Two financial accounting models of reference:

Fair Value (current value) Accounting	Historical Cost Accounting
Market Basis	Entity Basis
Valuation Purpose	Control Purpose
Net Worth Focus	Economic and Financial Process Focus
Stock Method	Flow Method

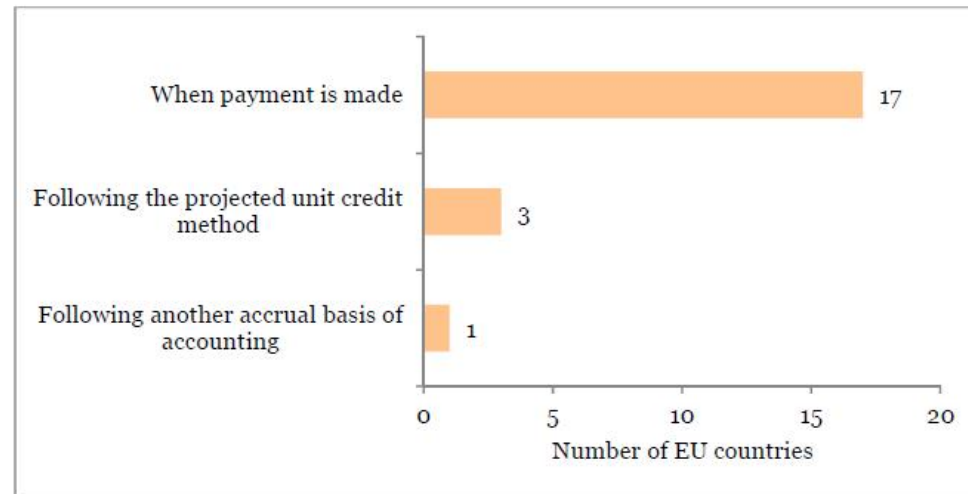
Case studies:

- IPSAS and IFRS foster the recourse to a fair value accounting approach
- Plan Comptable General (F), Kontenrahmen (D): Historical Cost Approach
- Excessive Deficit Procedure: Budgetary measurements, even cash basis of accounting is sufficient
- Macroeconomic Statistics (GFS): revaluations / matched transactions; market / non-market activities

A Conceptual Analysis: Pension Obligations Recognition

Review of EU Member States Practices

At the present, few member states have included pension obligations on their balance sheets and measured them at current values.



Source: PricewaterhouseCoopers (2014, p. 108)

Various modes of management: few (if any) are compatible with control by fair value accounting

→ Biondi, Y. and M. Boisseau (2015), 'Accounting for Pension Flows and Funds: A Case Study for Accounting, Economics and Public Finances'. EGPA XII Permanent Study Group Public Sector Financial Management Workshop, Zurich-Winterthur (Switzerland), May 7-8, 2015. DOI: <http://dx.doi.org/10.2139/ssrn.2606547>

A Conceptual Analysis: Financial Liabilities Measurement

Fair Value Approach

Under fair value accounting, remeasurement of listed financial liabilities at current market value

- ➔ If market prices go down, the accounting entity recognises a comprehensive income or a profit on devaluation of its own debt obligations (this is already occurring for financial institutions).
- ➔ Inconsistency with budgets and treasury management

Historical Cost Approach

Under historical cost accounting, accounting representation draws upon the financial process

- ➔ Avoidance of pro-cyclical interaction with markets, and opportunistic accounting practices related to mark-to-model measurements and subjective estimates
- ➔ Consistency with budgets and treasury management

Current EU practice: Sovereign debt is kept at nominal (historical) values. Issuance of debt for public policy purpose

Conclusion

Government finance statistics (GFS) and financial accounting have been strangers which must interact.

Harmonisation should then be respectful of their respective purpose and scope.

Conceptual reconciliation may be based upon historical cost approach, combining cash basis with accrual basis.

Careful impact analysis on practices and instruments of control.