1 Introduction

Currently the CR Ministry of Finance is preparing an extensive project of the implementation of the state’s accounting, which will radically deal with the issue of the accounting of accounting units in the public sector. The objective of the state accounting that is being newly created is the effective provision of correct, complete and timely information about the financial situation of the state as well as of the accounting units that secure the state’s functions. The basis element of this transformation is the migration of budget accounting to the accrual system of accounting. However, the fulfillment of this intention, which will mean a radical change of direction at these accounting units, requires the thinking through, construction, addition and implementation of new rules, procedures and solutions, which currently do not exist in this area or are unusual, or are precluded by other measures and procedures that have already been adopted. One such area, one that has been discussed for a long time, is the monitoring and expressing of the amortization of fixed assets in the public sector. At a number of units, the gradual and regular depreciation of the value of fixed assets is not being considered, and no processes that would make it possible to effectively record and report this process have been created and implemented. This contribution deals with one possibility, which suggests itself as a part of the solution of another problem.

The fundamental and most general requirement for data provided by accounting is the true and precise depiction of reality. This requirement blends accounting rules and procedures at different levels and in different directions and concerns various methodical elements of the accounting reporting of processes in accounting units. The fulfillment of this requirement is thus determined both by the methodical elements of accounting themselves, as well as by their specific reflection in accounting regulations. In the Czech Republic, accounting regulations represent a hierarchically organized system, where the most general regulation of accounting and accounting statements is provided by Act no. 563/1991 Coll., as amended, which is then specified for individual entities via Regulations...
of the CR Ministry of Finance. A total of seven different types of entities are recognized in the CR – an independent Regulation has been issued for each one of them, which regulates the fulfillment of the general principles for the given specific type of accounting entity. And the reporting of individual sub-processes within a given type of accounting unit is governed by the Czech Accounting Standards.

It is the specific regulation of accounting statements in decrees and accounting standards which is the factor that significantly decides on the fulfillment of general requirements and principles. The objective of the research activities within the scope of the internal grant project was to find and point out some aspects of accounting in the area of the accounting of entities in the public sector, which are in contradiction with generally accepted requirements and principles that are put on the accounting reports regarding assets and the sources of these assets of the accounting unit. Attention was paid to the area of fixed assets where for already a long period of time both theory and practice perceive as insufficient, respectively in contradiction with general requirements, the manner of its accounting reporting leading to a distorted record of the quantity and status of the assets of the stated entities.

The issue is that tangible as well as intangible fixed assets are being reported at the original, acquisition price in the accounting records of some entities in the public sector, without regard for the gradual loss of the assets’ value, both as a consequence of real use as well as of obsolescence; i.e., its amortization is not being included in the accounting records. This statement does not apply to accounting units such as subsidized organizations (PO), where long-term tangible and intangible assets are depreciated in the same manner as in the financial accounting of commercial entities, i.e., the assets’ acquisition price (brutto), adjustments and residual, i.e., book price (netto) are reported in the Balance Sheet. The booking of fixed assets in these accounting units is thus not the subject of attention of this contribution.

This problem is perceived much more intensively in the area of the practical use of accounting data than in theory or the legislative sector. The findings about the unsuitability of the said solution and comments on this issue were acquired from the students of the Public Administration combined study program – which for the large part are workers and employees of entities in public administration – during the Accounting in Public Administration course.

The accounting units, which are: Territorial Autonomous Units (ÚSC), State Funds (SF) and Organizational Units of the State (OSS), perform their accounting pursuant to legal regulations, i.e., Act no. 563/1991 Coll., on Accounting, as amended, Regulation no. 505/2002 Coll., and Czech accounting standards for these accounting units. For further considerations, it is necessary to remind that the main activities performed by ÚSC units are administrative activities, but it can also perform economic activities, which, in contrast to administrative activities, report taxable profits. The system of permitted accounts and methods of accounting (the system of permitted accounts is given by the type of accounting unit, i.e., ÚSC, SF, OSS, and is contained in the Chart of Accounts, which is an appendix of Regulation no. 505/2002 Coll.) has been adapted for this in the accounting regulations (Regulation no. 505/2002 Coll., and the Czech Accounting Standards for the said entities).
In addition to this it is necessary to add that the economic activity of the organizational units of the state is negligible; a certain exception applies only to the activities of their food-service facilities.

2 Problems in the accounting of fixed assets in the administrative activities of territorial self-governing units

According to current regulations, the acquisition, possession (use) and disposal of long-term tangible assets is booked according to the sequence of accounting operations as shown in the following table no. 1:

Table no. 1 Procedure for the booking of the acquisition of ÚSC long-term tangible assets (administrative activities)

<table>
<thead>
<tr>
<th>Text</th>
<th>CZK thousands</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Received subsidy to own deposit expense account</td>
<td>800</td>
<td>232</td>
<td>211</td>
</tr>
<tr>
<td>2. Entering of the supplier’s purchase invoice into the books</td>
<td>800</td>
<td>042</td>
<td>321</td>
</tr>
<tr>
<td>3. Invoice payment</td>
<td>800</td>
<td>321</td>
<td>232</td>
</tr>
<tr>
<td>4. Creation of sources</td>
<td>800</td>
<td>211</td>
<td>901</td>
</tr>
<tr>
<td>5. Entry into use</td>
<td>800</td>
<td>022</td>
<td>042</td>
</tr>
<tr>
<td>6. Disposal of obsolete assets</td>
<td>800</td>
<td>901</td>
<td>022</td>
</tr>
</tbody>
</table>

Legend for the account numbers used:
022 – Independent movable assets and sets of movable assets
042 – Acquisition of independent movable assets and sets of movable assets
211 – Financing of the spending of territorial autonomous units
232 – Deposit expense account
321 – Suppliers
901 – Fixed assets fund

The last operation no. 6 is booked after the lapsing of the entire life-span of this asset, on the basis of a decision established via protocol on its one-time elimination from accounting.

As can be seen from the sequence of the accounting operations, the gradual loss of the value as a result of use or obsolescence does not occur, i.e., the assets are not depreciated.

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The consequences need to be seen at different levels:

1. On the balance sheet, the acquisition (so called “historical”) price of this asset is shown for the entire time that it is in use, even though in reality its value gradually decreases due to amortization, and can only be a fraction of the original price at a specific moment (on balance sheet day). The value of the total assets of the accounting unit is thus considerably distorted, until the assets have been disposed of and removed from the books. As a result, thanks to the large quantity of assets, the accounting unit can have more difficult or restricted access to the permission for the acquisition of further assets that may be necessary for the unit’s development or for the increasing of its effectiveness.

2. The incorrect reporting of the level of the assets’ wear and tear – although established based on estimated and anticipated variables (life-span) – makes systematic care and attention of not only use, but also the renewal of the assets via a planned system of steps with all linked consequences (including in the sphere of the distribution processes of public funds) impossible.

3. Data about total costs connected with the performance of administrative and other activities are thus distorted. This means that also analyses and subsequent decisions aimed at the increasing of the effectiveness of individual activities are also distorted, just as are decisions on the structure or expenditure side of the state budget, which may appear remote at first glance.

An accounting procedure that has been proposed for the reporting of a specific component of assets – allowances for emission limits – could be used for the continuous updating of the value (price) of assets. The total value of fixed assets could be reduced similarly throughout their life-span as is stipulated for these emission allowances.

This method of the accounting decreasing of value was introduced in 2008. In Standard no. 512 – Intangible fixed assets and tangible fixed assets it is stated:

“An allowance for emissions, acquired by the first operator, is valued based on the reproduction acquisition price. In accordance with § 25 section 4 letter b) of the Accounting Act, the price is understood to be the price for which the asset was acquired at the time that it is being booked. In this case, however, questions arise whether this price must be determined on the basis of an expert assessment. It is clear from the Accounting Act that this obligation is not stated explicitly, but it is also not ruled out either. Subsequent questions are related to the method of the determination of this price, if these allowances will not be traded on the public market in the Czech Republic. It must once again be stated that the Accounting Act does not deal with this problem, and therefore the valuation of these allowances based on the price of another public market on which the accounting unit could acquire them is not ruled out.

The financial statements, which are supposed to present a true and honest picture of the subject of accounting and the financial situation of the accounting unit, must express that the amount of assets has decreased by the amount of the emission allowances that were used up.

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Discussions showed that neither adjusting entries nor reserves are suitable for this, mainly because the main characteristics of these categories are not met. With regard for this, it was decided that use of the emission allowances will be booked in that accounting period in which the accounting unit produced the emission of greenhouse gases; the fact that allowance emissions will be factually removed from the books at a moment that is different than the balance sheet day is not taken into consideration.

As far as the accounting of emission allowances that will be purchased, it is necessary to state that these purchased emission allowances will be booked in the same way as the acquisition of any intangible fixed assets."

In addition to this definition, also a procedure for the booking of the acquisition and gradual “use” of the emission allowances has been added – see table no. 2.

**Table no. 2** – Booking of the acquisition and use (decreasing of the value) of emission allowances

<table>
<thead>
<tr>
<th>no.</th>
<th>Text</th>
<th>CZK thousands</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Free of charge acquisition of the asset value corresponding to the right of the equipment operator to release equivalent tons of greenhouse gases into the atmosphere in a given calendar year – emission allowances</td>
<td>X</td>
<td>019</td>
<td>901</td>
</tr>
<tr>
<td>2</td>
<td>Consumption of asset value corresponding to the right of the equipment operator to release equivalent tons of greenhouse gases into the atmosphere in a given calendar year – emission allowances</td>
<td>X</td>
<td>901</td>
<td>019</td>
</tr>
</tbody>
</table>

**Legend for the account numbers used:**
019 – Other intangible fixed assets
901 – Fixed assets fund

The use of this procedure for the reporting of the value of all tangible fixed assets and intangible fixed assets as a reflection of their decreasing value is by and large understandable and substantiated.

This is how the acquisition price of tangible and intangible fixed assets would be reduced, and after the lapsing of the life-span of the fixed assets, it would be removed from accounting records via the same entry as is done currently (see table no. 1, operation 6). But establishing the amount by which the assets’ value should be decreased per year is somewhat more difficult. It could be based on the anticipated life-span length – as occurs in the
establishing of depreciation amounts for commercial entities – or on the real decrease of the value that occurred during the period, which would probably be more difficult.

However, a disadvantage of this solution may be the fact that the decreasing of the value will not affect costs, respectively funds used for activities, and the conditions for the more precise assessments of the cost structures of individual areas and activities will thus not be created.

It is clear that a condition for the use of this approach is its anchoring into the legislative regulations of accounting, especially into Regulation no. 505/2002 Coll., and also into Czech accounting standards for the mentioned entities.

3 Some problems in the accounting of the economic activities of territorial self-governing units

The Czech standard for territorial autonomous units, subsidized organizations, state funds and organizational units of the state no. 512 – Intangible fixed assets and tangible fixed assets states in section 4 – Depreciation, in paragraph 4.7.:

“Territorial autonomous units book the depreciation of tangible and intangible fixed assets on the fixed assets used in the operation of economic activities. The territorial autonomous units book the depreciation amounts as a debit from account 551 – Depreciation of intangible and tangible fixed assets, and as a credit to account 349 – Settlement of the overpayment of subsidies and other obligations with the budget of territorial autonomous units.”

It is apparent from the stated citation that the creation of “accumulated depreciation” items – on accounts of group 07 – Accumulated depreciation – intangible assets and 08 – Accumulated depreciation – tangible assets – which would depreciate the acquisition price of these assets to the book price, a more realistic value, is not expected. Even here, i.e., in the area of economic activities, the full, undepreciated acquisition price remains until the disposal of the fixed assets, which is not a “true and honest picture of the subject of accounting” and of the total assets of the accounting unit. The problem with the reporting of assets is thus similar as in the case of administrative activities.

A positive attribute of this solution can only be seen in the fact that the inclusion of a part of the depreciated amounts into the costs of the accounting units is anticipated, which is a logical consequence of the fact that it is the economic result that is being determined from economic activity, which is subject to taxation. As a result, the reports about the cost structure of individual activities are more precise, and thus also their evaluation as well as decisions made on the basis of these evaluations are more objective. But even so it is only a partial solution that does not fulfill the requirement of a true and honest picture of processes taking place in this part of the public sector.

Even this solution does not fulfill the third function of the gradual reporting of the loss of value, which is the systematic and economically substantiated approach to the renewal of assets in a manner the creates the conditions for the activities of public sector entities over the long-term.
The aforementioned problem applies only to the accounting of the economic activities of territorial autonomous units (ÚSC). Subsidized accounting units (PO) book depreciation and the creation of adjustments similarly to the financial accounting of commercial accounting units. The discussed difficulties therefore do not occur there.

4 Conclusion

A market environment puts increased demands on effective performance of activities in all areas, including the public sector. If the adopted measures in the area of the increasing of the effectiveness of the performance of activities in the public sector are to be effective, they must be based on reliable, true and honest information about the state of assets and their changes. The project of state accounting based on the accrual principal is being prepared with this goal in mind. The fulfillment of the goals of this project and the creation of the legislative conditions for the implementation of the accrual accounting model need to be based on a thorough analysis of the current status as well as of the possibilities for the utilization of the principles of accrual accounting taken from other areas. The current legislative regulations of accounting and reporting in the public sector contain a number of incomplete and insufficient solutions, which not only do not help in the evaluation and increasing of the effectiveness of these activities, but sometimes they even prevent this. Our contribution focused on two very narrow problems. Together with the identification of these problems, it was also stated that the current regulations contain procedures that could be currently used for a more realistic reporting of the assets in accounting statements of selected entities in the public sector.

The analysis dealt with the solution possibilities offered by the current accounting regulations currently valid in the Czech Republic. The aforementioned problems, as well as many others, could be resolved via an accelerated implementation of international accounting standards for the public sector (IAS/IFRS, resp. IPSAS).

Abstract

The article deals with some of the problems of accounting for Fixed Assets in public sector units as part of a wide range of questions that must be answered in the project of the transition of public sector accountancy on an accrual basis. The aim is to reach a fairer and truer view of the total assets in the Balance Sheet of the public sector accounting unit. This involves either administration activities or economic activities. The solution proposed in this article is open to wide discussion. The article takes into account the effective accounting standards in the CR.

Keywords
Harmonizing accounting. Administration activity, Economic activity, Municipal authorities, Government authorities

Abstrakt

Příspěvek pojednává o některých problémech při účtování o dlouhodobém hmotném a nehmotném majetku v účetnictví subjektů působících ve veřejném sektoru jako jednoho z mnoha problémů, které je třeba řešit v souvislosti s přípravou přechodu účetnictví ve veřejném sektoru na akruální princip. Motivem tohoto příspěvku je stále aktuální
požadavek, aby účetní výkaz Rozvaha podával i v oblasti veřejné sféry věrný a poctivý obraz o celkovém majetku účetní jednotky a jeho zdrojích, ale i nákladovosti a event. výsledku hospodaření. Pozornost je zaměřena jak na činnosti správní, tak i hospodářské, a to jak Územních samosprávných celků (ÚSC), tak i Organizačních složek státu (OSS). Zároveň je zde navrženo i jedno z možných řešení, které je určeno k širší diskusi. Příspěvek vychází z účetních předpisů, platných v současné době v ČR.

Klíčová slova
harmonizace účetnictví, správní činnost, hospodářská činnost, územní samosprávné celky, organizační složky státu

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