



Can accounting provide useful data sources for ERP?

THE ROLE OF ACCOUNTING AND DATA IN COSTING OF
STRUCTURAL REFORMS ONLINE COURSE MAY 17-28, 2021

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Overview of presentation

- Costing basics – what do we mean by costing?
- Main source of accounting information: Treasury/ Budgeting system
- Data classification: Chart of accounts – how can this be used?
- Some data challenges: Basis of Accounting

Costing basics – what do we mean by costing?

Budget Costing:

Estimating income and expenditure for a set period of time.

Cost accounting is defined as "a systematic set of procedures for recording and reporting measurements of the cost of manufacturing goods and performing services in the aggregate and in detail".

Cost accounting systems typically (1) distinguish between fixed and variable costs, (2) divide outputs into standard units, and (3) fully allocate costs to these units.

A Costing methodology is needed

In general....

- Issued by MoF & used by Budget users/organizations.
- Principles and standards for ERP costing should be the same as Budget/MTBF costing
- Standardized as far as possible to foster comparability of costing results.
- Documentation of costing assumptions to support traceability of costing results.
- Training on costing techniques

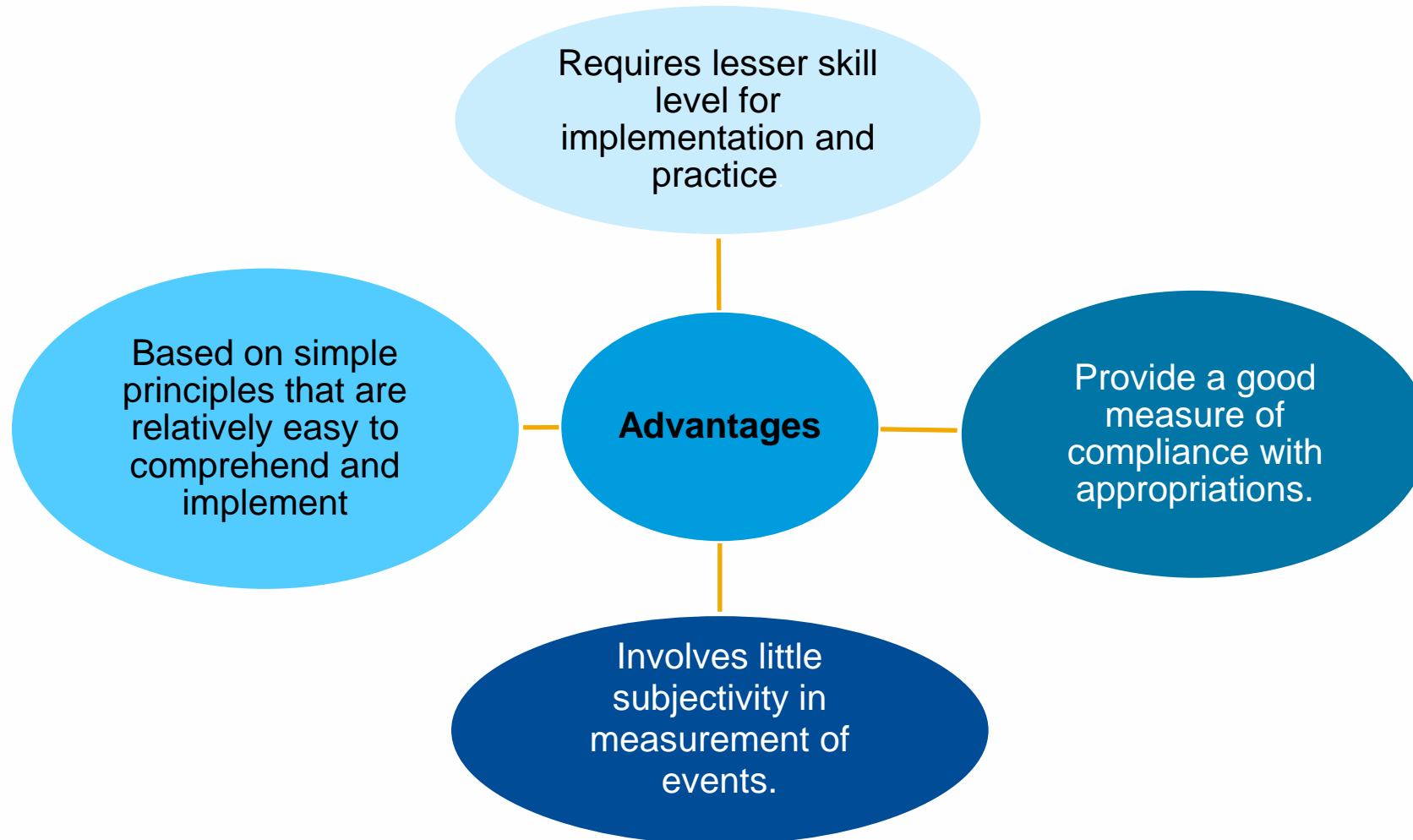
**Main source of accounting information:
Treasury/ Budgeting system**

Accounting systems

- All countries in the region have accounting systems on which budget execution reports and annual accounts are based. Some are commercial off the shelf systems, others have been developed locally.
- These systems are typically designed for implementation of the annual budget, i.e. for ensuring compliance with the budget appropriated by Parliament.
- Countries typically have different systems for preparation of the annual budget and medium- term budget preparation. These may be integrated, or separate systems with data exchange
- Accounting systems are not typically costing systems. The data produced is historical and its usefulness could be limited for policy costing. Further data sources are needed.

Does the Basis of Accounting matter?

Cash Accounting advantages....



But there are drawbacks

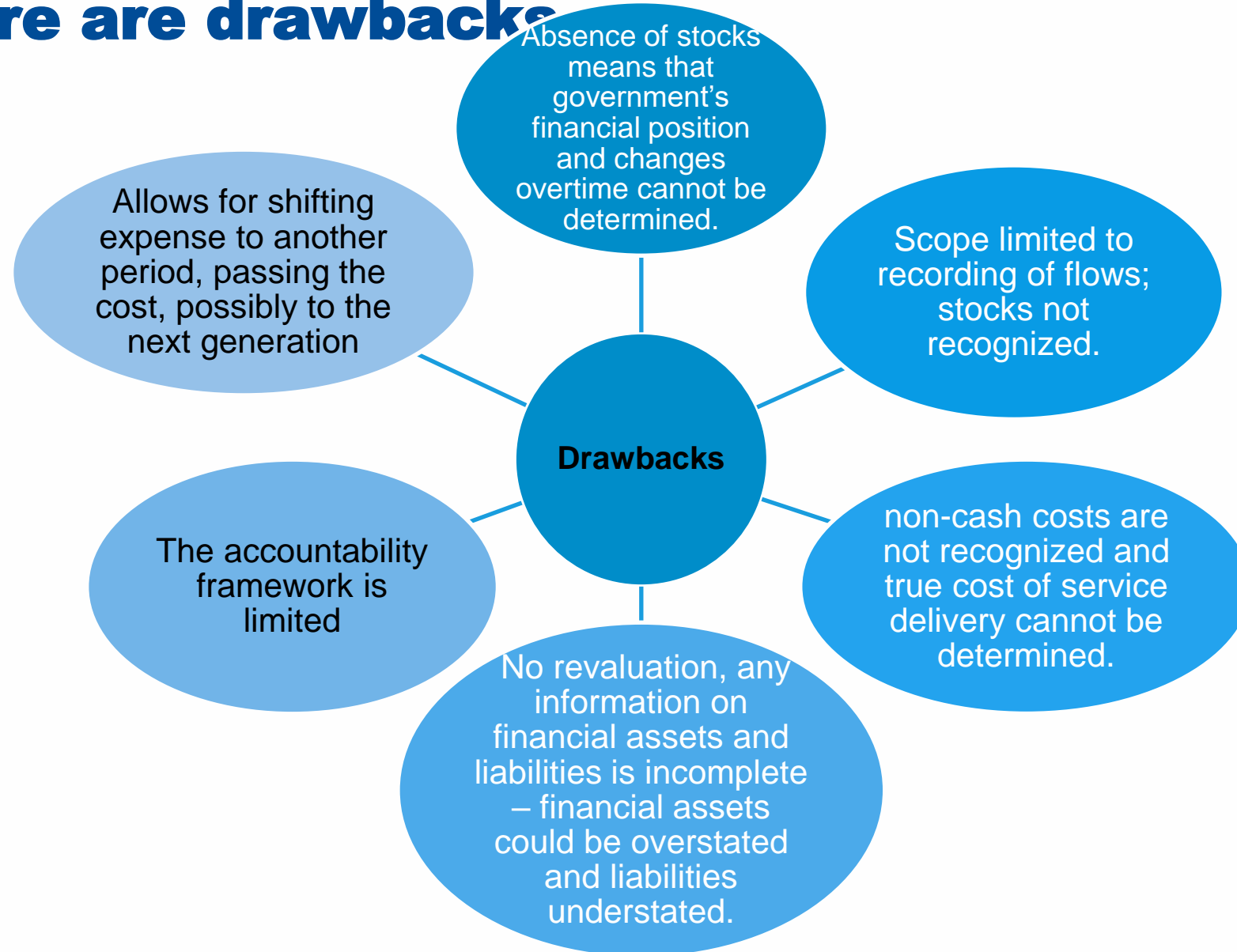


Chart of Accounts and Budget Classification is important

“A chart of accounts is a systematic coding system for the classification and coding of transactions and events within the accounting system. It defines the organization of ledgers used within the accounting system.” international federation of accountants (IFAC)

Chart of accounts/budget classification – possible segments...



Good budget classification/COA.....

One that maps funding with spending areas/programs

One that is integrated with the accounting classification

And there are some challenges....

- Accounting systems often do not support adequate structured information for analysis and planning, particularly under the programme classification
- Non-Financial information (for example quantities is usually missing)
- Often the lack of financing norms hinders the use of accounting information
- Accounting information is recorded in a cash or modified cash basis which hinders accuracy
- Detailed accounting information for indirect budget users is often missing in government systems

The role and application of accounting and budgeting information in government financial management process—a qualitative study in Slovenia. Tatjana Jovanović & Vesna Vašiček

Using historical accounting data can be misleading...

There is a need to.....

- **Clean the historical data of one-offs expenses that may skew the trends**

E.g. Elections, census collections, and IT infrastructure upgrades.

- **Adjust for policy implementation**

E.g. Wage increase that took effect half-way in last year; pension reform which is being implemented over a number of years

- **Adjust for cyclical factors and crisis response**

Analysing the planned costs for 2021/2: need to identify COVID-19 measures that will trail off, and those that will persist

Use other sources wherever possible...

Historical costs are important....

.....But the ERP guidance requires estimation of additional costs (not existing costs) of proposed reforms...

Other data sources should also be used:

- Audit performance reports
- Previous project costs, project proposals
- Detailed costs in subsidiary records maintained by Ministries
- Surveys and statistical information
- Macro-Fiscal Department: Provide updated macro-fiscal forecasts, and time forecasting rounds to coincide with the main milestones in the budget process; Be ready to provide customized parameters
- Build capacity in budget department, and line ministries

....OTHER???

Conclusion

- Accounting data if classified through a well-designed chart of accounts can support costing
- It can provide useful historic data on the costs of programs and projects
- However, in a cash-based system, full costs of programs may not be recorded in systems and care should be taken to reflect the full costs, e.g. arrears.
- Implementation of accrual accounting is the ultimate goal in providing full costs of service provision