

## **ICAG BUSINESS LESSONS (WEEK 6)**

### **Good morning**

This is **Week 6** of the year 2022 in the Gregorian calendar. 46 weeks remain until the end of the year.

### **MONDAY MOTIVATION:**

*When we strive to become better than we are, everything around us becomes better too."*

- *Paulo Coelho*

### **FUN FACT OF THE WEEK**

In 18th century England, pineapples were a status symbol. Those rich enough to own a pineapple would carry them around to signify their personal wealth and high-class status. In that day and age, everything from clothing to houseware was decorated with the tropical fruit.

### **ACCOUNTING QUOTE OF THE WEEK**

Your own business growth and success depends on many things, and along that growing path, you are going to have to concede certain responsibilities and activities - whether for your accounting, your production, or day-to-day management.

*Michael Gerber*

## **ACCOUNTING CONCEPTS OF THE WEEK: DIFFERENCES BETWEEN COMMERCIAL ACCOUNTING AND PUBLIC SECTOR ACCOUNTING.**

### **1) The purposes of accounting**

Users of financial information of both the private and public sectors are the same, however, they differ in their information needs and that accounts for the difference in the content and form of the accounting information provided by the two sectors.

In the private sector, the traditional financial statements in the form of profit and loss account and balance sheet are prepared for the purpose of assessing the performance of management and also to show the existing resources (i.e. Assets and liabilities.)

Public sector organizations are, however, not obliged to prepare accounts to show such performance. With the public sector the quality and quantity of the Goods & Services are compared with the funds provided to assess the economy, effectiveness and efficiency of the organization.

The trend is somehow changing since some of the public sector organizations have some element of profit motive or breaking even in their operations and charging user fees.

## **2) The Type of Theory Used**

The entity or proprietary theory is adopted in the private sector as against the fund theory found in the public sector. In the former, the capital account represents the claim of the shareholders in the organization. Management of the private sector organizations establishes proper financial management and control to achieve the profit objective. Profit so reported belongs to the entity and is not linked to any other entity.

In the public sector where the fund accounting operates, the funds are taken to represent different independent accounting entities or activities in possibly the same organizational setting. The sector that one manages is therefore not accounted for as a single system which must be co-coordinated with others to account for the fund as a whole. Unlike the private sector, managers account for their stewardship and not the profit generated.

## **3) Accounting Basis**

Public sector organizations could use varied basis such as cash, Modified cash, Modified Accrual, or Accrual accounting basis/system of accounting. Currently Local and Central Government Accounts are prepared under modified Accrual Accounting but with full adoption of IPSAS they will both use Accrual Accounting like private sector organisations.

Under the modified cash system, all revenues of both central and local government are recognised using cash accounting and Expenditure are recognised using Accrual Accounting. Debtors, creditors and Fixed Assets are shown on the Balance sheet.

#### **4) Regulatory Framework**

The regulatory framework for accounting in the public sector differs from that of the private sector. The main regulatory sources of accounting for the public sector is the constitution of Republic of Ghana (1992); the Public Financial Management Act and other laws establishing the public sector organizations.

Accounting in the private sector is regulated by a combination of laws and principles. Among these are the International Financial Reporting Standards, the Income Tax Act, Companies Act, the Incorporated Private Partnership Act, industry regulations (i.e. mining act, banking act, insurance act, etc.) and the Constitution of the Republic of Ghana.

#### **5) Classification of Expenditure**

The public sector differs from the private sector in terms of the classification of expenditure. The former classifies expenditure using the GIFMIS current Chart of Account (CoA) which has expenditure line items of; Compensation of Employees, Use of Goods and Services, Interest Expense, Government Subsidies, Grants, among other related expenditures.

However, expenditure classification by the private sector differs from industry to industry as regulated and codified by International Financial Reporting Standards (IFRS), Industry Regulations and the Companies Code. Expenditure line items include Cost of Sales, General Administration Expense, Selling and Distribution, Finance Cost among others for manufacturing and trading industry.

#### **THIS WEEK IN HISTORY: TOP 20 EVENTS**

**07/02/1990** - Dissolution of the Soviet Union: The Central Committee of the Soviet Communist Party agrees to give up its monopoly on power.

**07/02/1992** - Maastricht Treaty signed by 12 countries from the European Community (EC) to create the European Union (EU)

**08/02/1922** – United States President Warren G. Harding introduces the first radio set in the White House.

**09/02/1971** – The NASDAQ stock market index opens for the first time.

**08/02/1993** – General Motors sues NBC after *Dateline NBC* allegedly rigs two crashes intended to demonstrate that some GM pickups can easily catch fire if hit in certain places. NBC settles the lawsuit the next day.

**09/02/1978** – The Budd Company unveils its first SPV-2000 self-propelled railcar in Philadelphia, Pennsylvania.

**09/02/2021**– Second impeachment trial of Donald Trump began.

10/02/1940 – Tom and Jerry make their debut with Puss Gets the Boot.

**10/02/1996** - IBM computer Deep Blue becomes the first computer to win a game of chess against a reigning (human) chess champion, Gary Kasparov.

**10/02/2009** – The communications satellites Iridium 33 and Kosmos 2251 collide in orbit, destroying both.

**11/02/1951** - Kwame Nkrumah wins 1st parliamentary election in the Gold Coast (Ghana)

**11/02/1990** – Nelson Mandela is released from Victor Verster Prison outside Cape Town, South Africa after 27 years as a political prisoner.

**11/02/1999** – Pluto crosses Neptune's orbit, ending a nearly 20-year period when it was closer to the Sun than the gas giant; Pluto is not expected to interact with Neptune's orbit again until 2231

**11/02/2013** – The Vatican confirmed that Pope Benedict XVI would resign the papacy as a result of his advanced age

**11/02/ 2001**– A Dutch programmer launched the Anna Kournikova virus infecting millions of emails via a trick photo of the tennis star.

11th February is **International Day of Women and Girls in Science**.

*Have a wonderful week!*

Compiled by:

Technical and Research Directorate, (Institute of Chartered Accountants (Ghana)).

Please send all comments and suggestions to **Alhassan Trawule** on **0242 732976**.

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