

# NATIONAL ECONOMY'S MARKET MECHANISMS OF ACCOUNTING, ANALYSIS AND AUDIT

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## ACCOUNTING OF REVENUES AND EXPENDITURES OF THE GENERAL FUND OF LOCAL COMMUNITIES DURING THE PERIOD OF REFORMING THE BUDGET SYSTEM

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**Key words:**

financial decentralization, general fund, local budgets, revenues, expenditures, program-target method, budget, cash and actual expenditures.

The experience of many countries around the world shows that the problems of a particular village, city or street can be effectively solved only at the local level. Financial support for small communities using the system of subsidized equalization is burdensome for the state budget and makes it impossible to develop small towns and villages. In order for the community to have a strong potential for development and effective functioning, there was a need to unite administrative-territorial units. Enlarged local communities have more management powers and better financial security. Decentralization, as a new phenomenon for our country, is seen as a way of organizing power in the state, in which the formed territorial community has the right to decide on the organization of their work based on their own needs. The process of budget decentralization includes the transfer of authority in the management of revenues and expenditures to local communities in order to increase the efficiency of their use and management. The most important indicator of economic and financial activity of any budgetary institution is the implementation of the budget, which is impossible without the implementation of the expenditure side of the budget. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in a public institution. The article examines the state of decentralization reform in Ukraine, its main achievements and shortcomings; the concepts and the basic aspects of application of the program-target method in budgetary planning are defined; theoretical and practical aspects of the organization of accounting, analysis and control of revenues and expenditures of the general fund of local institutions are considered. The most important indicator of economic and financial activity of any budgetary institution is the implementation of the budget, which is impossible without the implementation of the expenditure side of the budget. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in a public institution. The article examines the state of decentralization reform in Ukraine, its main achievements and shortcomings; the concepts and the basic aspects of application of the program-target method in budgetary planning are defined; theoretical and practical aspects of the organization of accounting, analysis and control of revenues and expenditures of the general fund of local institutions are considered. The most important indicator of economic and financial activity of any budgetary institution is the implementation of the budget, which is impossible without the implementation of the expenditure side of the budget. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in a public institution. The article examines the state of decentralization reform in Ukraine, its main achievements and shortcomings; the concepts and the basic aspects of application of the program-target method in budgetary planning are defined; theoretical and practical aspects of the organization of accounting, analysis and control of revenues and expenditures of the general fund of local institutions are considered. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in a public institution. The article examines the state of decentralization

reform in Ukraine, its main achievements and shortcomings; the concepts and the basic aspects of application of the program-target method in budgetary planning are defined; theoretical and practical aspects of the organization of accounting, analysis and control of revenues and expenditures of the general fund of local institutions are considered. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in a public institution. The article examines the state of decentralization reform in Ukraine, its main achievements and shortcomings; the concepts and the basic aspects of application of the program-target method in budgetary planning are defined; Theoretical and practical aspects of the organization of accounting, analysis and control of revenues and expenditures of the general fund of local institutions are considered.

## ОБЛІК ДОХОДІВ ТА ВИДАТКІВ ЗАГАЛЬНОГО ФОНДУ МІСЦЕВИХ ГРОМАД У ПЕРІОД РЕФОРМУВАННЯ БЮДЖЕТНОЇ СИСТЕМИ

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### **Ключові слова:**

фінансова децентралізація, загальний фонд, місцеві бюджети, доходи, видатки, програмно-цільовий метод, кошторис, касові та фактичні видатки.

Досвід багатьох країн світу свідчить, що проблеми конкретного села, міста або вулиці можуть ефективно вирішуватися тільки на місцевому рівні. Фінансова підтримка малих громад з використанням системи дотаційного вирівнювання є обтяжливою для державного бюджету та унеможливає розвиток малих міст та селищ. Для того, щоб громада мала потужний потенціал для розвитку та ефективного функціонування, існувала необхідність в об'єднанні адміністративно-територіальних одиниць. Укрупнені територіальні громади мають більше повноважень в управлінні та краще фінансове забезпечення. Децентралізація, як нове явище для нашої країни, розглядається як спосіб організації влади в державі, при якому утворена територіальна громада має право самостійно вирішувати питання з організації своєї роботи виходячи з власних потреб. Процес бюджетної децентралізації включає в себе передачу повноважень в управлінні доходами та видатками місцевим органам громад з метою підвищення ефективності їх використання та управління. Найважливішим показником господарсько-фінансової діяльності будь-якої бюджетної установи є виконання кошторису, який неможливий без здійснення видаткової частини бюджету. Виходячи з цього слід зазначити, що облік видатків є одним із головних завдань фінансового обліку в державній установі. У статті досліджено стан проведення реформи децентралізації на території України, головні її досягнення та недоліки; визначено поняття та окреслені основні аспекти застосування програмно-цільового методу у бюджетному плануванні; розглянуто теоретичні та практичні аспекти організації обліку, аналізу і контролю доходів та видатків загального фонду місцевих установ.

### **Statement of the problem**

The implementation of decentralization reform in our country has led to the formation of new communities and, as a consequence, new local governments. These changes affected not only the territorial organization, but also significantly affected the restructuring of all inter-governmental relations. Therefore, it is expedient, after the reform, to assess the changes and their consequences, to identify new relevant concepts in the field of financial accounting of budgetary institutions, to identify practical and theoretical aspects of accounting for revenues and expenditures of local budgets.

### **Analysis of recent researches and publications**

Many domestic scholars in their works study the problems of budget accounting and planning, restructuring and functioning of the budget system. These issues are covered in the scientific works of such Ukrainian scientists as: V.S. Len, N.V. Kravchuk, S.V. Svirko, S.O. Levitsyka, M.V. Metelitsa and others. But the questions concerning the complex analysis and theoretical substantiation of necessity remain little researched. Therefore, there is a growing need for additional research that would be aimed at further development of budget regulation and focused on improving the budget system of the national economy. A significant contribution to the

development of theoretical aspects of the formation of the information space of enterprises from the standpoint of innovation and information management made M. Albert, V. Dick, M. Porter, F. Hedoury, B. Milner, R. Fatkhutdinov, E. Rusakova, O. Shaporova, V. Grinyova, I. Buleev, O. Pushkar, M. Kizim, A. Pilipenko, V. Ponomarenko, O. Tridid, A. Skull and others. The historical development of enterprise information systems, automated processing of accounting and analytical information and its use in enterprise management are reflected in the works of M. Perera, G. Plaug, M. Cooter, J. Foster, C. Horngren, M. Schwartz, K. Shannon, X Ueno, M. Mizintseva, J. Sokolov, A. Sheremet, O. Bradul, F. Butynets, V. Zavgorodny, L. Kindratskaya, M. Kuzminsky, Y. Kuzminsky, V. Linnik, L. Lovinskaya, M.R. Luchka, E. Mnykha, L. Napadovska, M. Pushkar and others. Problems of formation of accounting and information space are covered in the works of scientists: M. Van Bred, E. Hendrixen, E. Helfert, J. Clark, M. Vakhrushna, P. Nikiforova, S. Nikolaeva, O. Kaverina, V. Kovaleva, A. Sokolov, A. Shigaev, L. Schneidman, M. Bondar, O. Bradul, S. Golov, V. Evdokimov, Y. Kuzminsky, S. Kuznetsova, M. Pushkar and others.

#### Goals of the article

Investigate the state of decentralization reform in Ukraine, identify its main achievements and shortcomings; highlight the basic concepts in the field of budget accounting, give a complete definition and highlight the main aspects of the application of the program-target method in budget planning; consider the theoretical and practical principles of organization of accounting, analysis and control of revenues, expenditures and expenses of the general fund of local institutions.

#### The main material of the research

In the last few years, decentralization has become one of the driving forces in reforming the public administration system. This system is designed to enable local governments to exercise their statutory powers. During the years of Ukraine's independence, the number of rural population, according to the State Statistics Service, decreased by almost 2.5 million people, but at the same time the number of village councils increased by 1,067 units [1]. This imbalance has led to a lack of human resources in the executive branch in village councils, utilities and budget organizations, leading to an inability to develop and function effectively.

Financial support for small communities using the system of subsidized equalization is burdensome for the state budget and makes it impossible to develop small towns and villages. In order for the community to have a strong potential for development, there is a need to unite the administrative-territorial unit. Enlarged communities have more power and better financial security. Due to the above, equality is formed between local governments at all levels of government [2].

Examining decentralization as a new phenomenon for our country, we can conclude that it is a way of organizing power in the state, in which the formed territorial

community has the right to decide issues and organize their work based on its own needs [3]. The management function is based on the Budget Code of Ukraine and the Law of Ukraine "On Local Self-Government in Ukraine" and under the responsibility of authorized bodies and officials. Interference in the activities of the territorial community can take place only in order to monitor the legality of actions and control the targeted use of budget funds.

The process of budget decentralization includes the transfer of authority in the management of revenues and expenditures to local communities in order to increase the efficiency of their use and management.

The positive consequences of budget decentralization include [2]:

- strengthening control over the use of budget funds;
- increasing freedom to use funds within the community;
- strengthening initiative and effectiveness in addressing local issues;
- conducting financial equalization.

The main tasks and goals that budget decentralization includes:

- clear definition of powers at the local levels of government;
- transition to a targeted funding system;
- introduction of transparency of all actions performed by authorized bodies.

After the local elections on October 25, 2020, the entire territory of the state consists of territorial communities, and the State Budget of Ukraine for 2021 introduced a two-tier model of inter-budgetary relations.

The main information portal of the reform of local self-government and the territorial organization "Decentralization" reports that as a result of voluntary association of communities in 2015–2019, 3,700 local budgets were consolidated. A positive aspect of the reform of inter-budgetary relations is the annual increase in investment resources of local budgets and an increase in the share of expenditures for self-government, which indicates increased expenditure autonomy of local budgets and efficient use of budget funds at the local level [1].

Looking at the successful experience of foreign countries, we can conclude that this system of budget management is quite effective and allows local governments to address relevant issues of sustainable development and operation.

In their activities, local governments use the program-target method in budget planning, which allows to assess the effectiveness of state programs and clearly identify ways to spend budget funds [3]. The Budget Code of Ukraine contains the following definition of the program-target method – the management of budget funds to achieve previously defined goals at the expense of budget funds using the assessment of the effectiveness of their use at all levels of the budget process. It should be noted that this method is used at both the state and local levels.

The main purpose of using the program-target method is to outline and further solve socio-economic problems. Ways to address the outlined issues and form result-oriented budget programs, on the basis of which the budget is drawn

up. The main task in applying this method is to determine priorities in the allocation of budget resources, identify sources of funding and control the effective and targeted use of budget funds [4]. The leading idea of the program-target method is not only to outline the possibilities of the budget, but also to determine the most effective use of budget funds. The basic components of this method, ensuring its most effective implementation, are [5]:

- strategic planning of socio-economic activities;
- medium-term budget planning;
- system of evaluation and monitoring of program implementation;
- increasing the degree of transparency of budget information by involving the public in budget decisions.

The application of the program-target method is aimed at efficiency and is formed by budget programs, in contrast to the article-by-article method which is formed by functions. In practice, the presentation of the budget in terms of functions provide software classification codes, which are associated with the codes of functional classification. The peculiarities of the application of the studied method allow to carry out the expenditure part of the budget as efficiently as possible for the sake of the final result, which is a significant advantage of the article-by-article approach. With the program-target method of budget formation, budget managers justify budget requests, taking into account the actual and planned performance indicators.

The main principle of the program-targeted approach to budgeting is to ensure the transition from the purpose of maintaining a budgetary institution to the goal of obtaining specific results and the use of budget funds by each institution, ensuring the targeted use of budget funds. The application of this method at the level of the state budget allows monitoring the effectiveness of budget spending on the basis of information on performance indicators, which is reflected in budget requests, passports of budget programs and their reports. Thus, it is possible to track the compliance of expenditures from the budget to the goals and objectives of the state, which is the basis for assessing the effectiveness of the costs incurred [5].

According to the Budget Code of Ukraine, all revenues of budgetary institutions are divided into revenues of the general and special funds. The main normative documents that regulate the distribution and structure of general and special funds are the Budget Code of Ukraine and the Law of Ukraine "On the State Budget in Ukraine" [6].

The general fund of the budget organization is replenished through transfers from the state or local budgets. All actions are performed through the bodies of the State Treasury Service of Ukraine. Such funding is on a non-refundable and gratuitous basis and is designed to ensure the effective operation of local governments.

Accounting of revenues that in the budget of institutions belong to the revenues of the general fund is conducted on sub-account 7011 "Budget allocations" of account 70 "Revenues from budget allocations". The credit of the account reflects the receipt of budget allocations, the debit – a decrease in income in the amount of targeted funding [7, p. 54].

Analytical accounting of appropriations is conducted in the "Cards of analytical accounting of allocated appropriations". The maintenance of budget funds is provided by the State Treasury of Ukraine, which operates within the Ministry of Finance of Ukraine, on the basis of maintaining a single treasury account opened with the National Bank of Ukraine. Instructions of the State Treasury Service of Ukraine regulate the opening and closing of accounts of budgetary institutions in the bodies of the State Treasury [8, p. 85].

Appropriations are accounted for separately for each program classification code and for a period of one year. In addition, the received appropriations are accounted for separately by the general and special funds. The actual amounts, in the process of implementing the budget of the institution, are written off from the accounts on the basis of statements of the State Treasury. The card is filled in monthly and reflects the amount of funds received, the amounts withdrawn and shows the balances under the code of this program on a certain reporting date.

The most important indicator of economic and financial activity of the budgetary institution is the implementation of the budget, which is impossible without spending. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in the institution. Expenditures are government payments that are provided on a non-refundable basis and provided for in the organization's estimates.

In budgetary institutions, all expenditures are accounted for in accordance with the budget classification defined in the Budget Code and the Instruction on the application of economic classification of budget expenditures, approved by the order of the Ministry of Finance of Ukraine from 12.03.2012 № 333. Depending on the stage of budget funds, they are divided into cash and actual costs [3, p. 87].

Cash expenditures are all funds accrued by the State Treasury and / or from a special registration current account in both cash and non-cash form. It is not possible to determine the actual use of funds for these expenditures, because they also reflect the amounts that have been accrued but not yet paid. This type of expenditure provides an opportunity to see the number of received and spent appropriations for individual EQF codes, which provides important information on the implementation of the estimate and the balance of appropriations at the reporting date. The decrease in cash expenditures is caused by the return of appropriations to accounts. All transactions are accounted for twice: the first time in the state treasury, the second in the budget institution itself [9].

Actual expenditures are those funds that were spent by the budget organization, issued by primary documents and not paid. For example: accrued but not yet paid wages to employees of the organization. Their accounting fully controls the progress of the budget plan and compliance [9].

Actual and cash expenditures do not coincide in amount or time. Usually cash expenses are less than actual, this indicates either the absence of receivables, or the emergence of accounts payable at the reporting date.

To account for the actual expenditures of the general fund of budgetary institutions, the chart of accounts provides for sub-accounts 801 “Expenditures of budget managers for the implementation of budget programs” and 851 “Expenses for non-exchange transactions of budget managers” are active accounts. At the end of the year, the entries on the loan account 80 “Expenditures from the general fund” they are debited to account 5511 “Financial results of the budget for the reporting period”. Analytical accounting of cash expenditures is conducted in the Card of analytical accounting of cash expenditures [8, p. 87].

The card of analytical accounting of cash expenditures is kept for each separate open registration account and for each separate program. Card opening period is one month. It shows the cash flow on a daily basis based on state treasury statements. All expenses of the institution are shown separately according to the program classification codes. As a result of the financial and economic activities of the institution, reimbursed expenses may appear, then they are recorded on the reverse side of the Card and lead to a decrease in the amount of cash expenses in the specified month. Since the Card is maintained separately for each month, it ultimately reflects the number of expenditures at the beginning of the month, during the month, for the month and from the beginning of the year in cumulative total.

In the past 2020, the reform of the new budget system and administrative-territorial structure was fully completed. The state budget for 2021 established direct inter-budgetary relations between 1,438 territorial communities. To analyze the effectiveness of their work and the level of their provision with all the necessary resources to perform the management functions of local self-government, it is necessary to conduct systematic monitoring and analysis of budget indicators.

At the end of 2020, an expert assessment of the budget activities of communities that voluntarily united during 2015–2019 was conducted. A total of eight indicators were identified, among which the main ones, which show the revenue and expenditure part of the budget, are the revenues of the general fund per 1 inhabitant and the expenditures of the general fund per 1 inhabitant of the community.

To conduct this analysis, territorial communities were divided into five groups in terms of population. Thus, the first group includes TG with more than 15 thousand inhabitants; to the second group of TG – from 10 to

15 thousand inhabitants; to the third group of TG – from 5 to 10 thousand inhabitants; to the fourth group of TG with a population of less than 5 thousand inhabitants; to the fifth group of TG-cities of regional significance. The results of the study on the criterion of “Income of the general fund per 1 inhabitant of the community” are given in table 1 [10].

The above indicator calculated as the ratio of the amount of income of the general fund without the amount of transfers to the population of the community. The indicator of income of the general fund per 1 inhabitant shows the financial potential of each separate territorial community, independence and autonomy in providing the community with its own revenues and resources.

According to the results of the study, the following conclusion can be made: out of 872 territorial communities, 274 (or 32% of the total number) income per capita exceeds the average for all communities; the largest difference between income indicators in the communities of the third and fourth groups.

Expenditures of the general fund per 1 inhabitant-calculated as the ratio of the amount of expenditures of the general fund to the population of each individual community. In 2020, the general fund made expenditure payments in the amount of UAH 72.6 billion, which is UAH 6,986.9. the amount of expenditures per inhabitant of the community. Monitoring data are given in table 2 [10].

Out of 872 communities, 353 (40.5% of the total number) expenditures per capita exceed the average for all territorial communities. The largest difference between expenditure indicators is in communities with a population of less than 5,000 people.

## Conclusions

Financial decentralization creates favorable conditions for the development of territorial communities, is a powerful driver of development of Ukrainian cities and towns. Community associations have more opportunities and better funding, due to which effective management activities are carried out. Examining decentralization as a new phenomenon for our country, we can conclude that this way of organizing local government gives educated communities the right to decide on their own and organize their work based on their own needs. A positive aspect of the reform of inter-budgetary relations is the annual increase in investment resources of local budgets and an increase in the

Table 1 – Revenues of the general fund per 1 inhabitant of the territorial community for 2020

Groups	Number of TG in the group	Number of TGs in which the income per person is higher than the average for all TGs (UAH 5,200.6)	The average amount of own income received by 1 TG of the corresponding group, UAH	Average income per capita in the corresponding TG group, UAH	The highest income per person, UAH	The lowest income per person, UAH	The difference between the highest and lowest rate, times
1	110	29	95.9 million	4 453.7	25 163.0	1,129.3	22.3
2	134	40	55.9 million	4,600.1	16,381.5	954.7	17.2
3	277	77	32.8 million	4,669.3	34 249.4	833.9	41.1
4	308	110	16.7 million	4,888.4	40482.3	1,009.7	40.1
5	43	23	505.7 million	6,412.6	11,707.9	3,004.7	3.9
Together	872	279					

Table 2 – Expenditures of the general fund per 1 inhabitant of the territorial community for 2020

Group	Number of TG in the group	The average amount of expenditures made from the TG budget, UAH	Number of TGs in which the expenditure per capita is higher than the average for all TGs (UAH 6986.9)	The average cost per person in the relevant group of TG, UAH	The highest rate of expenditure per person, UAH	The lowest rate of expenditures per person, UAH	The difference between the highest and lowest rate, times
1	110	142.7 million	34	6,627.7	22 296.0	1,931.3	11.5
2	134	82.0 million	50	6,826.9	15 084.4	3,784.5	4
3	277	48.4 million	98	6,894.4	21 544.3	2,942.6	7.3
4	308	24.2 million	150	7 101.8	29 462.5	1,313.7	22.4
5	43	578.2 million	21	7,332.2	11,844.4	4 499.7	2.6

share of expenditures for self-government, which indicates an increase in expenditure autonomy of local budgets and efficient use of budget funds at the local level.

The application of the program-target method by local self-government bodies gives them the opportunity to objectively assess the effectiveness of state programs and to carry out continuous monitoring of the institution's expenditures. Thus, the main principle in drawing up a program-targeted approach is to ensure the transition from the goal of maintaining a budgetary institution to the goal of obtaining specific results and use of budgetary funds by each institution, ensuring the targeted use of budgetary funds.

Replenishment of the general fund of the budgetary institution takes place through transfers from the state

or local budgets. All actions are performed through the bodies of the State Treasury Service of Ukraine. The accounting of incomes that in the budget of institutions belong to the incomes of the general fund is conducted on account 70 "Revenues from budget allocations".

The most important indicator of economic and financial activity of the budgetary institution is the implementation of the budget, which is impossible without spending. Based on this, it should be noted that the accounting of expenditures is one of the main tasks of financial accounting in the institution. In budgetary institutions, all budget expenditures are accounted for in accordance with the budget classification defined in the Budget Code and the Instruction on the Application of the Economic Classification of Budget Expenditures.

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