

ACCOUNTING OF THE EXTERNAL GRANTS AND ITS INFLUENCE ON THE ROMANIAN PUBLIC INSTITUTIONS’S SURPLUS OR DEFICIT

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Abstract: *In the past two years we can find an increasing process in accessing the European external grants by the public institutions from Romania. Therefore, public institutions, in general, and educational institutions, in particular, that access funding from the European Social Fund are faced with the issue of reflecting them in the accounts. In this paper I try to present the methods of reflecting the external grants in the public institutions accounting. In the end of this paper I shall present some influences of the refund reflecting methods on the surplus or deficit of the public institutions from Romania.*

Keywords: *accounting of public institutions, external grants, surplus and deficit, SOP HRD (Sectoral Operational Programme for Human Resources Development), refund request, ESF (European Social Fund)*

1. Introduction

The basic regulation for public institutions in Romania [1] provides in Chapter XV, “Accounting of operations specific to the external grants - structural instruments, funds for agriculture and other funds” (the chapter was introduced by section II of the Appendix from 16/04/2008, amended by Appendix, section IV of the Order no. 2169/2009) both the chart of accounts and the appropriate accounting monograph for reflecting in the accounts the specific operations with structural instruments, funds from the budget and other funds for:

- The Certifying and Paying Authority (direct and indirect payments);
- The Management Authorities (direct and indirect payments);
- beneficiaries - public institutions entirely financed from the state budget, state social insurance budget and special fund budgets (for projects financed by post-accession external grants and by funds from the budget);
- beneficiaries - public institutions financed from own revenues and subsidies from the budget (for operations with post-accession external grants and funds from the budget);
- beneficiaries - public institutions entirely financed from own revenues (for operations with post-accession external grants and funds from the budget);
- beneficiaries - public institutions that have the capacity of authorising officers of the local budget (for post-accession external grants and funds from the budget);
- The department / institution that record the state budget revenues, the state social insurance budget and special fund budgets of the amounts received from the European Commission for the payments made.

2. Public Romanian accounting of the external grants

In this paper we will focus only on the projects financed from the SOP HRD type European Social Fund (ESF) whose main objective is to “develop human capital and increase its competitiveness, by connecting education and lifelong learning with the labour market and ensuring increased participation in a modern, flexible and inclusive labour market for 1,650,000 people” through seven areas of activity, also called “priority axes” [2] at the public institutions from Romania that are financed from own revenues and subsidies from the budget.

According with the actual regulations [1] the main accounting operations for the post-accession European external grants and funds from budget, are presented below:

- Receiving of the pre-financing from the Certifying Authorities/Management Authorities, according to the statement of account:

561/project/45.10.yy.03 “Availabilities in the account of the public institutions financed from own revenues and grants”	=	4585 „Advances received from the Certifying Authorities /Management Authorities/ Agencies of Payments representing pre-financing - Structural Funds Tools for Agriculture and Other Funds”	with the pre-financing received
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- Reflecting the application for refund (reimbursement claims) submitted by the leader/beneficiary to the

Certifying Authorities/ Management Authorities:

* _____			
4583.1.1 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the current year - Post-Accession External Grants”	=	775 / chap. 45.10.yy.01 (current year) /chap. 45.10.yy.02 (previous years) “Funding from post-accession external grants”	<u>-with the requested amount</u>
or			
4583.1.2 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the previous years - Post-Accession External Grants”			
* _____			
<input type="checkbox"/> Reflecting the amounts to be reimbursed representing subsidies from the state budget as co-funding, VAT:			
* _____			
4583.2.1 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the current year - Budget Funds”	=	7721 /chap. 42.10 subchapter 42.10.39 “Subsidies from the state budget”	<u>-with the requested amount</u>
or			
4583.2.2 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the previous years - Budget Funds”			
* _____			
<input type="checkbox"/> Reducing the amounts to be received from the Certifying Authorities/Management Authorities with a part of the pre-financing already received:			
* _____			
4585 „Advances received from the Certifying Authorities /Management Authorities/ Agencies of Payments representing pre-financing - Structural Funds Tools for Agriculture and Other Funds”	=	4583.1.1 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the current year - Post-Accession External Grants” or 4583.1.2 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the previous years - Post-Accession External Grants”	<u>-partially of the pre-financing reduced beginning with the second application for refund</u>
* _____			
<input type="checkbox"/> Reflecting the payment obligation to the state budget of the amounts representing deducted VAT which was paid by the Management Authorities/The Certifying Authorities (at the beneficiaries who exercise their rights of VAT deducting on eligible expenditures):			
* _____			
629 “Other expenditures authorized by the law”	=	4481 „Other obligations to the budget”	<u>-with VAT amount</u>
* _____			

3. Circumstances that influence the surplus/deficit due to the SOP HRD projects implementation [4]

We will refer here mainly to the principle of connectivity of revenue with the expenditure generated by such projects. In practice, revenues should be correlated with the costs of their generation. The implementation of SOP HRD type projects by the public educational institutions (entirely financed from own revenues, respectively own revenues and subsidies) leads to the violation of this principle when the application for refund is reflected, as a result of the following circumstances:

- the application for refund requests the recovery from the SOP HRD Managing Authority (MA) /

Intermediate Body (IB) of all the eligible payments made during the reference period of the application (total amount of the application for refund, the amount reimbursed by the ESF, the amount reimbursed from the national budget, co-funding of the beneficiary, deduction of the pre-financing granted to the beneficiary / partners);

- the tangible / intangible fixed assets included in the earnings (surplus/deficit) of the public institutions as beneficiaries of ESF funded projects are subject to linear depreciation for a period determined in accordance with the internal procedures of such institutions, without violating the legal provisions in force [3];
- the material assets (supplies, etc.) are given in consumption according to the needs generated by the implementation of projects;
- the eligible payments, required for refund, are reflected as income, and the latter are not correlated with the depreciation expenses and the consumption of materials in the reference period of the application for refund (usually 3 months);
- the personnel costs for the last month of the reference period of the application for refund, though included in the expenses of the beneficiary institution, since they are not actually paid (the payment may be made in the following month) may not yet be required for refund from the SOP HRD MA/IB, being subject to the following applications for refund.

Therefore, the differences between the concepts of payments and expenses, respectively the moment when the amounts required for refund are reflected as income, lead to the decrease / increase in the earnings of beneficiary public institutions, as shown in the following examples.

For example, consider that the reference period of the application for refund coincides with the calendar quarter (exceptional circumstances) and the following eligible payments and expenses have been made:

- eligible payments in the amount of lei 240,000.00;
- total eligible expenses (depreciation, consumption, personnel, utilities, etc.) in the amount of lei 150,000.00 (consider that all expenses are eligible);
- personal expenses for the last month of the quarter (which may not be required for refund as no actual payment has been made) in the amount of lei 40,000.00.

Consequently, the institution will record as income (account 775 “Funding from post-accession external grants” - for the amounts requested for refund less the co-funding, namely 7721 “Subsidies from the state budget” - for the VAT receivable from the budget) the amount of lei 240,000.00 at the end of the quarter / reference period, and as expenses (accounts 641, 645, 6811, 602, etc.) only the amount of lei 190,000.00 (which also includes the amount of lei 40,000.00 representing personal expenses for the last month of the reference period) . Thus, the earnings of the institution have been increased by the difference of lei 50,000.00 between revenues (lei 240,000.00) and expenses (lei 190,000.00).

4. Conclusions

Analysing the matters briefly presented above, it appears that although the accrual accounting principle is observed, the principle of linking expenditures to revenues is violated, and the earnings are influenced as follows:

- upward, when in the reference period of the application for refund payments were made for the fixed assets acquired on account of SOP HRD ESF funding (ERDF funds - European Regional Development Fund), as the payments required for refund (reflected as income) exceed the costs of the same fixed asset depreciation (depreciation will be reflected linearly in the accounts of the beneficiary public institution starting with the month following the commissioning of fixed assets throughout the period of depreciation). The same situation is generated by the purchase of material goods in the reference period of the application for refund and the commissioning is not entirely carried out in the same period;
- downward, for the other applications for refund for which the accounts reflect depreciation and/or consumption costs of materials and there are no records of income;
- at the end of the period of implementation of SOP HRD projects, some depreciation expenses are still recorded in the accounts of public institutions due to the depreciation period (which may exceed the SOP HRD project implementation period).

To connect the expenses to income without influencing the earnings of the beneficiary public institutions of the SOP HRD funding projects from ESF, I suggest the following measures:

1. choice of a depreciation period not exceeding the project implementation period;
2. replacement of the records specified in Chapter XV of OMPF 1917/2005 [1] for the application for refund with the following suggested records:
 - registration of the application for refund, representing amounts receivable for the payments made in the current year / previous years:
 - a) amounts to be refunded from POST-ACCESSION EXTERNAL GRANTS:

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4583.1.1 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the current year - Post-Accession External Grants”	=	%	<u>-with the requested amount</u>
		775/ chap. 45.10.yy.01 (current year) /chap. 45.10.yy.02 (previous years)	-with the amount for actual expenses (depreciation and consumption)
or		“Funding from post-accession external grants”	
4583.1.2 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the previous years - Post-Accession External Grants”		472 “Deferred income”	-with the amount paid in advance (for the depreciation expenditure and unconsumed stocks)
	*		
b) amounts to be reimbursed from the budget Funds - co-funding, VAT:			
	*		
4583.2.1 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the current year - Budget Funds”	=	%	<u>-with the requested amount</u>
		7721 /chap. 42.10 subchapter 42.10.39	-with VAT for actual expenses
or		“Subsidies from the state budget”	
4583.2.2 “Amounts receivable from the Certifying Authorities / Management Authorities for the payments made in the previous years - Budget Funds”		472 “Deferred income”	-with the amount paid in advance for non-actual expenses
	*		
- in the coming months the deferred income will be reflected as current income as the depreciation expense and the inventory consumption is performed:			
	*		
472 “Deferred income”	=	%	<u>-total</u>
		775/ chap.45.10. yy.01 (current year) /chap.45.10.yy.02(previous years)	-with the amount for actual expenses
		“Funding from post-accession external grants”	
		7721 /chap. 42.10 subchap. 42.10.39	-with VAT for actual expenses
		“Subsidies from the state budget”	
	*		

References

[1] OMFP nr. 1917 of 29/12/2005 on the organisation and management of public institutions accounting, chart of accounts for public institutions and its implementing instructions published in the Official Journal part I no. 1186bis of 29/12/2005, as further amended and supplemented (Appendix of 16/04/2008 to the Order of the Minister of Public Finance no. 1.187/2008 amending and supplementing the methodological norms for the organisation and management of public institutions accounting, chart of accounts for public institutions and its implementing instructions, approved by Order of the Ministry of Public Finance no. 1.917/2005, published in the Official Journal, Part I no. 410bis of 02/06/2008, Order no. 529/2009 published in the Official Journal no. 221 of 06/04/2009 and Order no. 2169/2009 published in the Official Journal no. 513 and 513bis of 27/07/2009)

[2] www.fseromania.ro (http://www.fseromania.ro/index.php?option=com_content&task=blogcategory&id=6&Itemid=11#a2)

[3] Government Decision no. 2139 of 30/11/2004 approving the Catalogue for the classification and normal operating times of fixed assets, published in the Official Journal Part I no. 46 din 13/01/2005, as further amended and supplemented (Government Decision no. 1.496/2008 published in the Official Journal no. 852 of 18/12/2008)

[4] Nicolae Ecobici – “Influence of the external grants on the earnings of public institutions in Romania”, International Scientific Conference Eco-Trend 2011, 8th edition, November 25-26, Targu Jiu, Romania