ACCRUAL OF LIABILITIES AND CONTINGENT ASSETS

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Abstract
International Financial Reporting Standards together with Public Sector Accounting Standards are based on professional reasoning by appealing to principles that can lead to several solutions for a certain problem. In this respect Romanian economic mechanisms have a high level of rigidity in the implementation of accounting concepts and principles so that it is important to highlight the aspects that generate added value in the current economic climate.
Even since 2005 the harmonization of Romanian accounting with the directives of International Accounting Standards, which came to support the harmonization of rules and principles concerning the development of annual financial statements of public institutions, is the most important and essential challenge for administrative environment.
Assets and contingent liabilities are elements which in terms of the law cannot be included in the assets of a public institution that is why accounting of these elements must be performed using special off-balance sheet accounts.
The purpose of this work emphasizes the opportunity and the recognition of economic events whose elements should be reflected in balance sheet, but also the appropriate and necessary moment of making entries over special accounts off the balance sheet in accordance with IPSAS 19[1].

KEY-WORDS: contingent, liabilities, assets, recognized, circumstances.

The most important objectives of applying IPSAS 19

Under accrual accounting, transactions and events are recognized when they occur, when ther they are registered[2] in the accounting records and they are reported in the financial statements of the referred periods. Expenses are recognized in profit or loss on a direct association between costs obtaining specific items of income. However, applying the concept of correlation does not allow recognition of items (in the balance sheet) that do not meet the absolute definition of assets or liabilities.
IPSAS 19 objectives are as follows: defining provisions, contingent liabilities and contingent assets. Whenever public institutions apply this standard, circumstances under which assets and contingent liabilities should be recognized have to be indentified, when and how these should be measured.
Benefits derive from the recognition[3] and measurement of contingent assets and liabilities and clearly support the target of achieving social policy objectives of any government using delivery of goods, services or other benefits.
Followimg elements define contingent assets and liabilities:
- ✓ given or received commitments (endorsements, guarantees, bails) in relation to third parties;
- ✓ tangible properties with rent;
- ✓ goods received for processing or restoration, to storage or in custody;
- ✓ debtors that become inactive, still on watch;
- ✓ stocks of inventory given into use;
- ✓ management locations, rents and other payables;
- ✓ unmatured intended effects;
- ✓ public goods received for administration, lease and with rent from an autonomous direction; national companies/commercial companies;
- ✓ unmatured interests on finance lease;
- ✓ emission allowances for greenhouse gas which do not have a clear value and therefore cannot be recognized in balance sheet accounts or in accounts of other values.

[1] IPSAS 19—Provisions, contingent liabilities and contingent assets
[2] …. and not as cash or cash equivalents are received or paid
[3] Mihai R., Corina-Graziella D., Advanced Accounting, Lucman Publishing House, 2002, pg 92

Recognition to Contingent Assets

A contingent asset is a potential asset that arises from past events and whose existence in the balance sheet will be confirmed only by the occurrence or non-occurrence of several uncertain future events that cannot be entirely under the control of public institution.

The moment of Recognition to Contingent Assets

Following these events should be noted that a debt security that may result from litigation it has to be recognized as a contingent asset in court until the delivery of an irrevocable direction. Control bodies organize the registration of debt securities in public institution own accounts before settling litigations arising from the breach of contractual terms. Just as with contingent liabilities a public institution should not recognize (Figure 1) a contingent asset in financial statements.

As a contribution to support the understanding and application of IPSAS 19 here is the Convention Scale of certainty (Table 1) which helps by professional reasoning can lead to the moment of recognition for contingent assets and liabilities as certain debts to the balance sheet date. The scale of these conventions indicates the degree of certainty that the public institution has in connection with the reality of things described in future events. Each level depends on the context information.

Registration to Contingent Assets

An obvious example is that where a public institution signs a service contract, aimed for renting or providing logistic support for carrying out actions or activities and the recipient (customer) does not meet the contractual terms of payment, due to lack of availability. Eventually the public institution is forced to perceive penalties and delay increases, but the actual payment will be made after a court case to an established value.
Question: How will the debt security be registered on this litigation?
According to IPSAS 19[4] the public institution has no expectations on future economic consumption arising from the security debt, admitting the fact that it was not expecting an input of resources at the contracted price.
In this way if the inputs of economic consumption become certain[5], the asset and the corresponding income will be recognized in financial statements for the period in which changes occurred. On the other hand if it is just a probable increase in economic benefits, public institution shall present the contingent asset in the explanatory note. In conclusion, it should be noted that any event concerning debt securities must be made in off-balance sheet accounts (account 807 " Contingent assets ").

Recognition to Contingent liabilities

A contingent liability is a potential obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or several uncertain future events, that cannot be entirely under the control of public institution, in other words a present obligation that arises from past events (previous to the balance sheet date) but will not be recognized because:

- ✓ it is not hundred percent sure that an outflow of resources will be needed to settle this debt; or
- ✓ the amount of the debt cannot be measured reliably enough.

The moment of recognition Contingent liabilities

A past event that leads to a present obligation is called an event that binds. For an event to be a binding one it takes for the public institution to have no realistic alternative in settling the obligation cause by an event. This happens only if:

- ✓ settling the obligation may be imposed by law; or
- ✓ implicit[6] obligation, where the event causes expectations valid to another party and the public institution takes responsibility for it.

Registration Contingent liabilities

[4] IPSAS 19 - Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity.
[5] IPSAS 19 - Contingent assets are not recognized in financial statements since this may result in the recognition of revenue that may never be realized. However, when the realization of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
[6] Where an entity has an obligation jointly engaged with other parties

An obvious example is that where a public institution signs a service contract, aimed for renting or receiving logistic support for carrying out actions or activities and it does not meet the contractual terms of payment, due to lack of availability. Eventually the public institution is forced to pay penalties and delay increases, but the actual payment will be made after a court case to an established value.
Question: How will the debt be registered on this litigation?

Public institution[7] has no expectations on future economic consumption arising through failure to pay debts on time, admitting the fact that it was not expecting an output of additional resources at the contracted price. In conclusion we have to point out that ant event regarding contingent liabilities must be made in off-balance sheet accounts (account 808 "Contingent liabilities"). In this way if the output of economic consumption becomes certain, debt and corresponding expense will be recognized in financial statements for the period in which changes occurred. On the other hand if it is just a probably an output of resources, public institution shall present in the explanatory note the contingent liability and periodically evaluate[8] its value. Therefore, contingent liabilities are assessed continually in order to determine whether outflows of resources embodying economic benefits or potential services are likely.

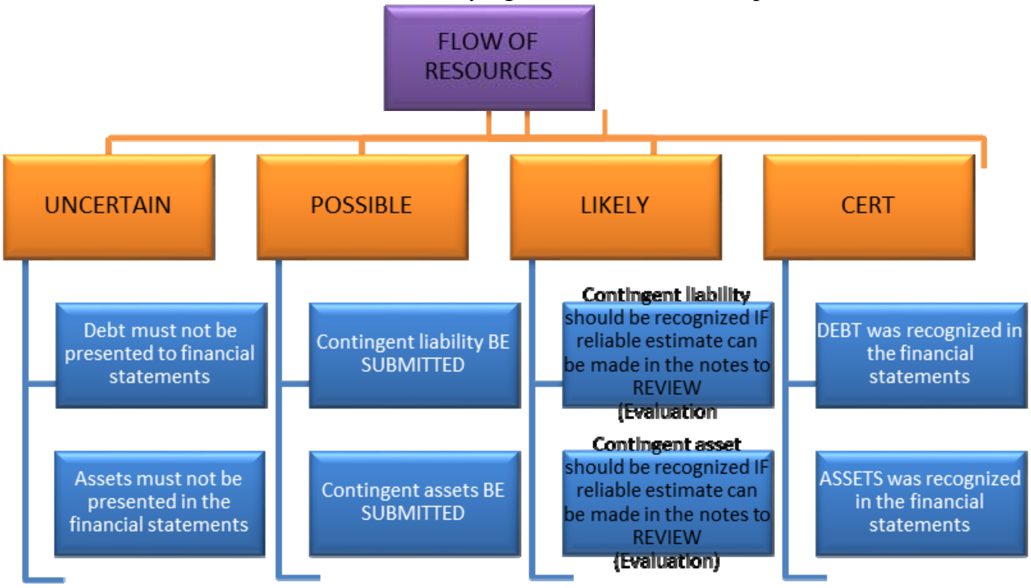

Figure 1 – Inputs/Outputs resources cycle until the recognition of assets and liabilities

Indicator	Convention
Uncertain	It is uncertain and can lead to future changes
Possible	It can happen or accomplish in an unpredictable future
Probable	It can occur with high chances of success
Certain	It cannot be doubtful – accomplished event

Table 1 – Convention Scale of Certainty

[7] IPSAS 19 - A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
[8] IPSAS 19 - Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable.

Concepts

Accounting law provides:
ART. 11[9]: *Possession, under any title, of elements like assets or liabilities as well as conducting economic and financial operations, without being registered in accounting, are prohibited*
ART. 13[10]: *Registration, evaluation and presentation of assets, liabilities and equity are to be made according to applicable accounting regulations*
ART.18: *Accounting for public institutions ensures the registration of established entitlements, collected revenues, budgetary commitments, legal commitments, cash payments and actual expenses on the subdivisons of budgetary classification according to the approved budget and the methodological norms elaborated by Ministry of Finance.*
Also Order 2861/2009 provisions add and complete the previous measure:
Inventory of assets, liabilities and equity are made by inventory committees based on own procedures
These concepts together with Standard 17 – Procedures[11] enable applying IPSAS19 by public institutions and the connection between these concepts are public institution's own procedures.
It is worth noting that IPSAS 19 norm finds its usefulness and necessity of applying in accrual accounting and can be used as basis and rational argument in highlighting financial data in the most reliable way.

Conclusions

The Recognition of contingent liabilities and assets is the process which helps defining, obtaining and providing useful information allowing at the same time subsequent decisions. The act of recognition consists of three relatively distinct moments: measurement, events assessment and adopting the measures of registration. Recognition must be conceived not as a superimposed stage to accrual accounting, but as its integrated document. It is an opportunity to validate the accuracy of evaluation sequences, of accounting components and a means of separation and interference on the content and objectives of public accounting.

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[9] Annotation: Article 11 was amended by section 14 of art. I GEO. 37 of 13 April 2011
[10] Annotation: Article 13 was amended by section 15 of art. I GEO. 37 of 13 April 2011
[11] Order no. 946/2005 for the approval of internal control, including management standards / internal control and public entities to develop management control systems