

# SIMILARITIES AND DIFFERENCES BETWEEN COMPANIES ACCOUNTING AND TERRITORIAL ADMINISTRATIVE UNITS ACCOUNTING

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## **Abstract:**

*Similarities between the accounting of companies and territorial administrative units accounting are the following: organizing double entry accounting; accounting method both in terms of fundamental theoretical principles and specific practical tools.*

*The differences between the accounting of companies and of territorial administrative units refer to: the accounting of territorial administrative units includes besides general accounting (financial) also budgetary accounting, and the accounts system of the budgetary accounting is completely different from that of companies; financial statements of territorial administrative units to which leaders are not main authorizing officers are submitted to the hierarchically superior body (not at MPF); the accounts of territorial administrative units are opened at treasury and financial institutions, accounts at commercial banks being prohibited; equity accounts in territorial administrative units are structured into groups of funds; long term debts have a specific structure in territorial administrative units (internal local public debt and external local public debt).*

**Key words:** *accounting of companies, territorial administrative units, budgetary accounting, funds, Capitals borrowed*

**JED Classification:** M41

## **Introduction**

The approximation of territorial administrative units' accountancy with the accounting of commercial companies is part of the Romanian accounting harmonization process with the European Union accounting. This approach is a process that began with the adoption of the Ministry of Finance Order no. 1917/December 12, 2005, applicable since 2006. The implementation of this order is a lasting process that underwent a series of changes, the latter being the Ministry of Finance Order no. 1400 / October 15, 2014.

## **Research methodology**

As a research methodology we used the analysis and synthesis of the specialty literature and accounting regulations. At the same time, we compared the object and scope of the accounting specific for the two types of entities, respectively, companies and public institutions, and after the structure of the patrimony, chart of accounts and financial statements.

## **SIMILARITIES**

1. The main similarity is the double entry accounting used both in companies, as well as in the territorial administrative units.

2. The accounting method is the same, both in terms of the fundamental theoretical principles (the principle of patrimony's double representation in accounting, the principle of double entry in accounting and the principle of synthesis periodical calculations), as well as specific practical tools (documents, evaluation, calculation, account, trial balance, inventory and balance sheet).

### DIFFERENCES

1. Accounting for companies includes financial (general) accounting and management accounting, and **the accounting for territorial administrative units** includes general accounting, budgetary accounting and may draw up where appropriate, management accounting. Accounting for budgetary revenues and expenditures is achieved by means of special accounts, opened on the existing budget classification structure. These accounts provide the registration of received revenues and paid expenditures, according to the approved budget and provide the information required to draw up the budgetary execution account and to establish budgetary outturn (budgetary surplus or deficit).<sup>1</sup>
2. **The financial statements of territorial administrative units** to which managers are not authorizing officers shall be submitted to the hierarchically superior body, not the Ministry of Public Finance.<sup>2</sup>
3. The accounts of territorial administrative units are opened at treasury and financial institutions. It is forbidden for public institutions to carry out payment and receipt operations through commercial banks, except as provided by law.<sup>3</sup>

Public institutions<sup>4</sup> are required to organize and manage their own accounting, respectively, financial accounting and where appropriate, management accounting.

Accounting for public institutions provides information to authorizing officers on the execution of revenues and expenditure budgets, the budget outturn, patrimony under management, patrimonial (economic) result, cost of programs approved in the budget, and also the information necessary to draw up the annual general account of state budget execution, the annual execution account of state social insurance budget and special funds.<sup>5</sup>

The Romanian accounting organization rules (order 1917 from 2005) that apply to public institutions are elaborated in accordance with the International Public Sector

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<sup>1</sup> \*\*\* Ordinul M.F. nr. 1400 din 15 oct. 2014 pentru modificarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia, aprobate prin ordinul M.F. nr.1917/2005, publicat în Monitorul Oficial, Partea I, nr. 767 din 22 oct. 2014, Capitolul I Dispoziții generale, pct. 1.1.Obiectul contabilității publice. (Order of M. F. no. 1400 from October 15, 2014 for the amendment of the Methodological Norms on organizing and conducting the accounting of public institutions, the Chart of accounts for public institutions and instructions for its application, approved by Order of M.F nr.1917/ 2005, published in the Official Gazette, Part I, no. 767 of October 22, 2014 Chapter I General Provisions, section 1.1. The object of public accounting.)

<sup>2</sup> \*\*\* Idem, Capitolul II, Aprobarea, depunerea și componența situațiilor financiare, pct. 2.1. Prevederi generale (Ibid, Chapter II, Approval, submission and composition of financial statements, section 2.1. General provisions)

<sup>3</sup> \*\*\* Idem, Capitolul III Prevederi referitoare la elementele de bilanț, pct. A2.3 Casa, conturi la trezoreria statului și bănci. (Ibid, Chapter III Provisions on balance sheet items, section. A2.3 Petty cash, state treasury and bank accounts.)

<sup>4</sup> Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Contabilitatea instituțiilor publice după noul sistem contabil. Editura Irecson. București. p.17-19 (Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Accounting of public institutions after the new accounting system. Irecson Publishing House, p. 17-19.)

<sup>5</sup> Dumitru Franca, Nagy Cristina Mihaela. (2014). Teorie și practică în contabilitate a instituțiilor publice, Editura Eurostampa Timișoara, p. 15 (Dumitru Franca, Nagy Cristina Mihaela. (2014). Accounting theory and practice in public institutions, Eurostampa Publishing House, Timisoara, p. 15)

Accounting Standards (IPSAS)<sup>6</sup>, but those applicable to companies (order 1802 from 2004<sup>7</sup>) are developed in accordance with the **International Financial Reporting Standards (IFRS)**.

Public institutions are mainly financed from sources originating from various budgets, and the responsibility for the use of those funds rests with the head of the institution called authorizing officer, whose role is to distribute and use the approved budgetary credits.

#### 4. Capital in companies and territorial administrative units

**Capital** represents permanent sources of public institution, which include their own sources represented by funds, patrimonial (economic) result which divides in retained earnings and profit and loss, as well as borrowed sources in the medium and long term, represented by loans and assimilated liabilities<sup>8</sup>.

**Equity** refers to the rights of the patrimonial holder over part of the assets, which in the case of **public institutions** is the state as a legal person, as a result of the contribution at the establishment of the institution and during its operation.<sup>9</sup>

**Companies' equity** represents the residual interest of shareholders in a company's assets after deducting all its liabilities and they have the largest share in the liability of insurance companies (approximately 70%). *Equity is composed of:* social capital, capital related premiums, revaluation differences, retained earnings, profit or loss, subsidies and reserves. Capital must produce an annual profit, consisting of a certain amount of money or goods.<sup>10</sup>

In case of a limited liability company, *the social capital* cannot be less than 200 lei and is divided in equal social parts, which cannot be lower than 10 lei, and the social parts cannot be represented by marketable securities.<sup>11</sup>

**Equity of public institutions**<sup>12</sup> is the residual interest of the state or territorial administrative units, as owners of the assets of a public institution after deducting all its liabilities.

Equity refers to the right of the owner over part of the patrimony's assets, as a result of the contribution at the establishment of the institution and during its operation. Unlike commercial companies, where the patrimonial owner can be an individual or a

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<sup>6</sup> Tudorache, Saveta și colab. (2006). Contabilitatea instituțiilor publice după noul sistem contabil, Editura IRECSO, București, p. 18. (Tudorache, Saveta și colab. (2006). Accounting for public institutions after the new accounting system. IRECSO Publishing House, Bucharest, p. 18)

<sup>7</sup> ORDIN nr. 1.802 din 29 decembrie 2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate (ORDER no. 1802 of 29 December for approval of Accounting regulations regarding individual annual financial statements and consolidated annual financial statements)

<sup>8</sup> Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Contabilitatea instituțiilor publice după noul sistem contabil. Editura Irecson. București, p. 67 (Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Accounting of public institutions after the new accounting system. Irecson Publishing House, p. 67)

<sup>9</sup> Bli-dișel, Rodica Gabriela. (2009). Contabilitatea Instituțiilor Publice. Editura Universității de Vest Timișoara, p. 96 (Bli-dișel, Rodica Gabriela. (2009). Accounting of Public Institutions. West University Publishing House, Timișoara, p. 96)

<sup>10</sup> Popescu, Gh. (2000). Evoluția gândirii economice, Editura „George Barițiu”, Cluj Napoca, p. 184 (Popescu, Gh. (2000). The evolution of economic thinking, „George Barițiu” Publishing House, Cluj Napoca, p. 184)

<sup>11</sup> Colța S., Kis Z., Filip V.C., (2011) Demararea unei afaceri, Editura Fundația Civitas, p. 34 (Colța S., Kis Z., Filip V.C., (2011) Starting a business, Fundația Civitas Publishing House, p. 34)

<sup>12</sup> Dascălu, C., Nișulescu, I., Caraiani, C., Ștefănescu, A., Pitulice, C. (2006). Convergența contabilității publice din România la Standardele Internaționale de Contabilitate pentru Sectorul Public, Editura CECCAR, București, p. 154 (Romanian public accounting convergence to International Accounting Standards for Public Institutions, CECCAR Publishing House, Bucharest, p. 154)

particular legal person, in public institutions, the patrimonial owner is the state, as a legal person.<sup>13</sup>

**Funds**<sup>14</sup> appear in accounting as own funds, such as: the fund of assets that form the state's public domain, fund of inventory items, fund with special purpose, as well as in the form of attracted or borrowed funds, for example, obligations of public institutions to suppliers, creditors, employees, the state budget and the state social insurance budget.

Funds are elements of the public institution's equity that show the state's or the territorial administrative unit's right of possession, use and disposition of property that forms its public and private domain.<sup>15</sup>

According to OMPF 1917<sup>16</sup>, public institution funds include:

- fund of assets that form the public domain of the state;
- fund of assets that form the private domain of the state;
- fund of assets that constitute the public domain of territorial administrative units;
- fund of assets that constitute the private domain of territorial administrative units;
- fund of intangible fixed assets;
- funds outside the local budgets, etc.

The state and territorial administrative units exercise possession, use and disposal on goods that constitute the public domain, within the limits and under the law.

*The public domain of counties* comprises the goods that are exemplified in the annex of Law no.213/1998 on public property and its legal status, and from other household or county public interest goods, declared as such by a decision of the county council, if they are not legally declared household or national public interest goods (account 103).

*The public domain of communes, cities and municipalities* consists in the goods referred, exemplified in the annex to Law 213/ 1998 on public property and its legal status and other household or local public interest goods, declared as such by the local council, if they are not legally declared household or national or county interest goods (account 103).

Public domain goods are inalienable, unnoticeable and indefeasible, as follows<sup>17</sup>:

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<sup>13</sup> Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Contabilitatea instituțiilor publice după noul sistem contabil. Editura Irecson. București. p. 67 (Chițu, Alberta Gisberto. Tudorache, Saveta. Șendroi, Cleopatra. Glăvan, Mariana. Pitulice, Cosmina (2005). Accounting of public institutions after the new accounting system. Irecson Publishing House, p. 67)

<sup>14</sup> Manea, Marinela-Daniela. (2012). Contabilitatea instituțiilor publice, Editura C. H. Beck, București Accounting of Public Institutions, C. H. Beck Publishing House, Bucuresti.

<sup>15</sup> Bliidișel, Rodica Gabriela. (2009). Contabilitatea Instituțiilor Publice. Editura Universității de Vest Timișoara, p. 96 ((Bliidișel, Rodica Gabriela. (2009). Accounting of Public Institutions. West University Publishing House, Timisoara, p. 96)

<sup>16</sup> OMFP 1917/2005 pentru aprobarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia (actualizat până la data de 22 octombrie 2014) Anexă, Capitolul III: Prevederi referitoare la elementele de bilanț, punctul C – CAPITALURI (OMPF 1917/ 2005 for the approval of Methodological norm for organizing and conducting public institutions accounting, Chart of Accounts for public institutions and its implementation instructions (updated until 22 October 2014) Annexm Chapter III: Provisions relating to balance sheet items, point C – CAPITAL)

<sup>17</sup> OMFP 1917/2005 pentru aprobarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia (actualizat până la data de 22 octombrie 2014) Anexă, Capitolul III: Prevederi referitoare la elementele de bilanț, punctul C – CAPITALURI (OMPF 1917/ 2005 for the approval of Methodological norm for organizing and conducting public institutions accounting, Chart of Accounts for public institutions and its implementation instructions (updated until 22 October 2014) Annexm Chapter III: Provisions relating to balance sheet items, point C – CAPITAL)

a) can not be alienated; they can only be given in administration, lease or rent, under the law;

b) shall not be subject to enforcement and they can not subject to real guarantees;

c) can not be acquired by another person through usucaption or the effect of possession of good faith on movable property.

Public domain goods can be given as appropriate in the administration of autonomous administrations and public institutions.

*The public domain of the state or of territorial administrative units* consists of assets owned by them and which are not part of the public domain. The assets of the public domain of the state and of territorial administrative units are subject to the legal regime of common law, except where the law provides otherwise.

*The transition of assets from the private domain of the state or of territorial administrative units in their public domain* is made, as appropriate through a decision of the Government, county council, respectively the General Council of Bucharest county or the local council<sup>18</sup>.

*The transfer to the public domain of assets from the patrimony of commercial companies*, in which the state or a territorial administrative unit is a shareholder, can be made only by payment and with the approval of the general meeting of shareholders of the company concerned. In the absence of the mentioned approval, the goods of the company in question can be transferred into the public domain only through the expropriation procedure for the public utility cause and after a fair and prior compensation.

*The transfer of an asset from the public domain of the state in the public domain of a territorial administrative unit* is made at the request of the county council, respectively the General Council of Bucharest County or local council, as appropriate, by Government decision.

*The transfer of an asset from the public domain of a territorial administrative unit in the public domain of the state* is performed at the request of the Government, or through a decision of county council, respectively the General Council of Bucharest County or local council<sup>19</sup>.

Public property right ceases if the asset has been destroyed or has been transferred in the private domain.

The transfer from the public domain to the private domain is made, where appropriate, by decision of the Government, county council, respectively the General Council of Bucharest County or local council, if the Constitution or the law does not provide otherwise.

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<sup>18</sup> Dumitru Franca, Nagy Cristina Mihaela. (2014). *Teorie și practică în contabilitate a instituțiilor publice*, Editura Eurostampa Timișoara, p. 75-76 (Dumitru Franca, Nagy Cristina Mihaela. (2014). *Accounting theory and practice in public institutions*, Eurostampa Publishing House, Timișoara, p. 75-76)

<sup>19</sup> OMFP 1917/2005 pentru aprobarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia (actualizat până la data de 22 octombrie 2014) Anexă, Capitolul III: Prevederi referitoare la elementele de bilanț, punctul C – CAPITALURI (OMPF 1917/ 2005 for the approval of Methodological norm for organizing and conducting public institutions accounting, Chart of Accounts for public institutions and its implementation instructions (updated until 22 October 2014) Annex Chapter III: Provisions relating to balance sheet items, point C – CAPITAL)

## 5. Long term debts

**Capitals borrowed over medium and long term** represent financing alternatives for public institutions, being considered capital items because they are in the institution for a longer period of time (over 3 years)<sup>20</sup>.

According to the law of public finances, *public institutions subordinated to the state budget and other central budgets cannot engage loans*. When there are necessities of greater financial resources than the institution's availabilities, but legally and economically justified, they will receive these resources from the Ministry of Public Finances. For all these institutions, loans will be performed only by MPF. Also, these institutions cannot guarantee, endorse or commit any other forms of such potential debts<sup>21</sup>.

Except MPF, *bank loans can be contracted* or *loans from bonds issued, city halls, local councils, county councils and other institutions of this type* that benefit from this right only under certain conditions and within the law.

A local council may employ long term loans so that the payments fall within the limit of 20% of the income estimated to be achieved for the duration of the loan, but only with the approval of MPF (approval that does not make MPF guarantor of the loan). When contracting a loan, the income that guarantees the loan must be specified. Loan reimbursement and interest payments can be achieved only from the income provided when the loan was contracted.

The due installments of the contracted loans, interests and commissions owed by territorial administrative units should be provided in the local budget.

## CONCLUSIONS

We consider that the proximity between the accounting for territorial administrative units and the accounting for companies (double entry accounting, accounting method, both in terms of the fundamental theoretical principles and specific practical instruments) represents an advantage for the mobility of specialized personnel that works in these fields, as well as for the monitoring and control personnel from state institutions.

Specialized personnel working in territorial administrative units should consider the specificity of budgetary accounting, which allows them to make an important contribution to the development of the budget of these units, and follow up his execution.

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<sup>20</sup> Șoșdean, Aleodor. (2005). Contabilitatea instituțiilor publice. Ediția a doua, Editura Mirton, Timișoara, p. 57 (Șoșdean, Aleodor. (2005). Accounting of public institutions. Second edition. Mirton Publishing House, Timișoara, p. 57)

<sup>21</sup> Dumitru Franca, Nagy Cristina Mihaela. (2014). Teorie și practică în contabilitate a instituțiilor publice, Editura Eurostampa Timișoara, p. 92-93 (Dumitru Franca, Nagy Cristina Mihaela. (2014). Accounting theory and practice in public institutions, Eurostampa Publishing House, Timișoara, p. 92-93)

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10. \*\*\* Ordinul M.F. nr. 1400 din 15 oct. 2014 pentru modificarea Normelor metodologice privind organizarea și conducerea contabilității instituțiilor publice, Planul de conturi pentru instituțiile publice și instrucțiunile de aplicare a acestuia, aprobate prin ordinul M.F. nr.1917/2005, publicat în Monitorul Oficial, Partea I, nr. 767 din 22 oct. 2014, (Order of M. F. no. 1400 from October 15, 2014 for the amendment of the Methodological Norms on organizing and conducting the accounting of public institutions, the Chart of accounts for public institutions and instructions for its application, approved by Order of M.F nr.1917/ 2005, published in the Official Gazette, Part I, no. 767 of October 22, 2014)
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