



# Budget Classification and Chart of Accounts of Ukraine: Perspectives for Their Reform

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**State Treasury of Ukraine**

# Current Budget Classification

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The Budget Classification has the following components:

- classification of budget incomes
- classification of budget expenditures (including lending minus repayment)
- classification of budget funding
- classification of debt

This Budget Classification of Ukraine is determined by the Budget Code of Ukraine

Budget Classification of Ukraine is approved through the Order of the Ministry of Finance of Ukraine (Ukraine MoF Order no. 604 of 27.12.01)

# Classification of Budget Incomes

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Budget incomes are grouped into the following categories:

- Fiscal revenues
- Non-fiscal revenues
- Revenues from capital transactions
- Transfers

*The code of income classification has 8 digits.*

# Classification of Budget Expenditures

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Budget expenditures are classified by:

functions these expenditures are meant to cover (functional classification of expenditures) (classification code has 4 digits)

- economic properties of transactions the expenditures are meant for (economic classification of expenditures) (classification code has 4 digits)
- properties of the main budget administrator (departmental classification of expenditures) (classification code has 3 digits)
- budget programs (program classification of expenditures) (classification code has 7 digits)

# Classification of budget funding

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Classification of budget funding determines sources of financial funds required to meet the budget deficit, as well as destinations of financial expenditures caused by excess of budget incomes over budget expenditures (this category includes payments aimed to redeem the principal amount of debt)

**Classification of budget funding is based on the following features:**

- 1) funding by type of creditor – by categories of creditors or owners of debt instruments
- 2) funding by type of debt instrument – by money used to fund either deficit or profit

The classification code of budget funding has 6 digits

# Classification of Debt

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Classification of debt is to systematize information on all debt instruments of the central budget, the Autonomous Republic of Crimea and local budgets

Classification code has 6 digits

## **The debt is classified by:**

type of creditor

type of debt instrument

# Problems of the Current economic classification

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- It does not meet the requirements of GFS 2001, which is based on accrual accounting and is used to compile economic and financial statistics
- To ensure integration of budget classification with chart of accounts and implement the accrual method it is necessary to bring the current economic classification in compliance with GFS

The Public Treasury of Ukraine is drafting a new economic classification.

# Perspectives for improvement of economic classification

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- to bring it in compliance with GFS 2001
- classification codes will have three digits
- the fourth digit will be used to make the main codes more detailed
- classification will have the following main parts:
  - expenditures
  - fiscal and non-fiscal assets

The new economic classification shall be developed by 2012



# Accounting in Public Sector of Ukraine

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- Accounting of budget execution in budget institutions is done by budget administrators on accrual method
- Accounting of public and local budget execution is done by the agencies of the State Treasury by cash method with some elements of accrual method used for some certain transactions (accounting of public debt, liabilities of budget administrators):
  - by incomes broken down by types of inflows and collecting agencies
  - by expenditures broken down by destinations and economic character of expenditures and budget administrators
- Accounting of ear-marked public funds is done by accrual method



# Charts of Accounts used in Public Sector

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- Chart of Accounts for public and local budget execution (*used by State Treasury*)
- Chart of Accounts for budget execution by budget administrators (*used by all budget administrators*)

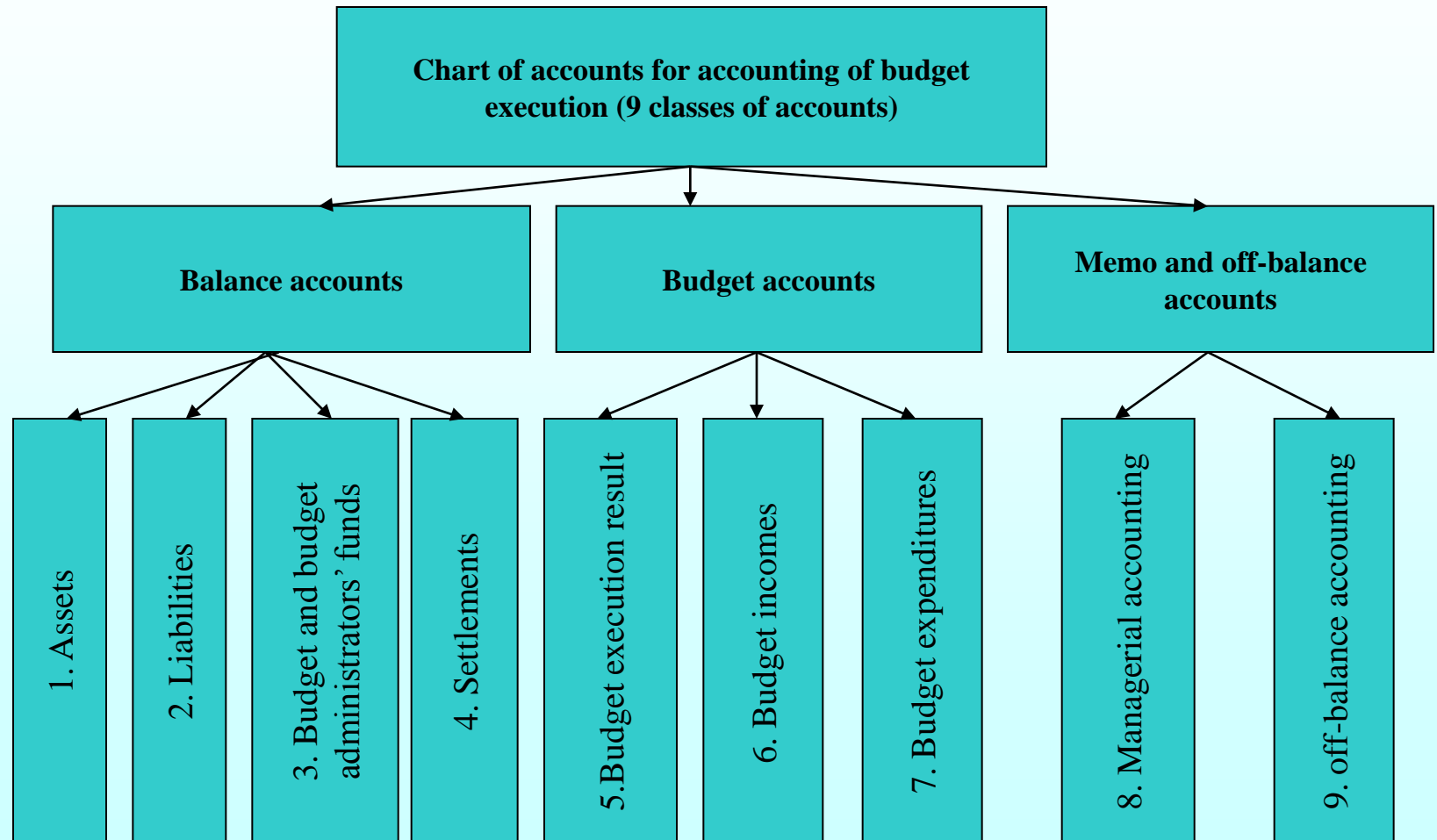
Chart of Accounts for ear-marked public funds is based on the Chart of Accounts for budget execution by budget administrators and the Chart of Accounts for enterprises (*private sector*)

# Chart of Accounts for Execution of Public and Local Budgets

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- Chart of Accounts for execution of public and local budgets and its supporting manual were approved through Order no. 119 of Ukraine State Treasury on 28.11.2000
- The Chart of Accounts includes nine classes of accounts
- Its design uses decimal system of encoding of balance accounts with the four-digits number :
  - Each class is divided into 10 sections, each of which is attributed a digit from 0 to 9
  - Each section is divided into maximum 10 groups, each of which is also attributed a digit from 0 to 9
  - Each group consists of 10 accounts

# Chart of Accounts Structure for Central and Local Budget Execution



# Chart of Accounts for Budget Institutions

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The Chart of Accounts for budget institutions and its supporting manual were approved through Order no. 114 by the Main Board of the Ukraine State Treasury on 10 December 1999

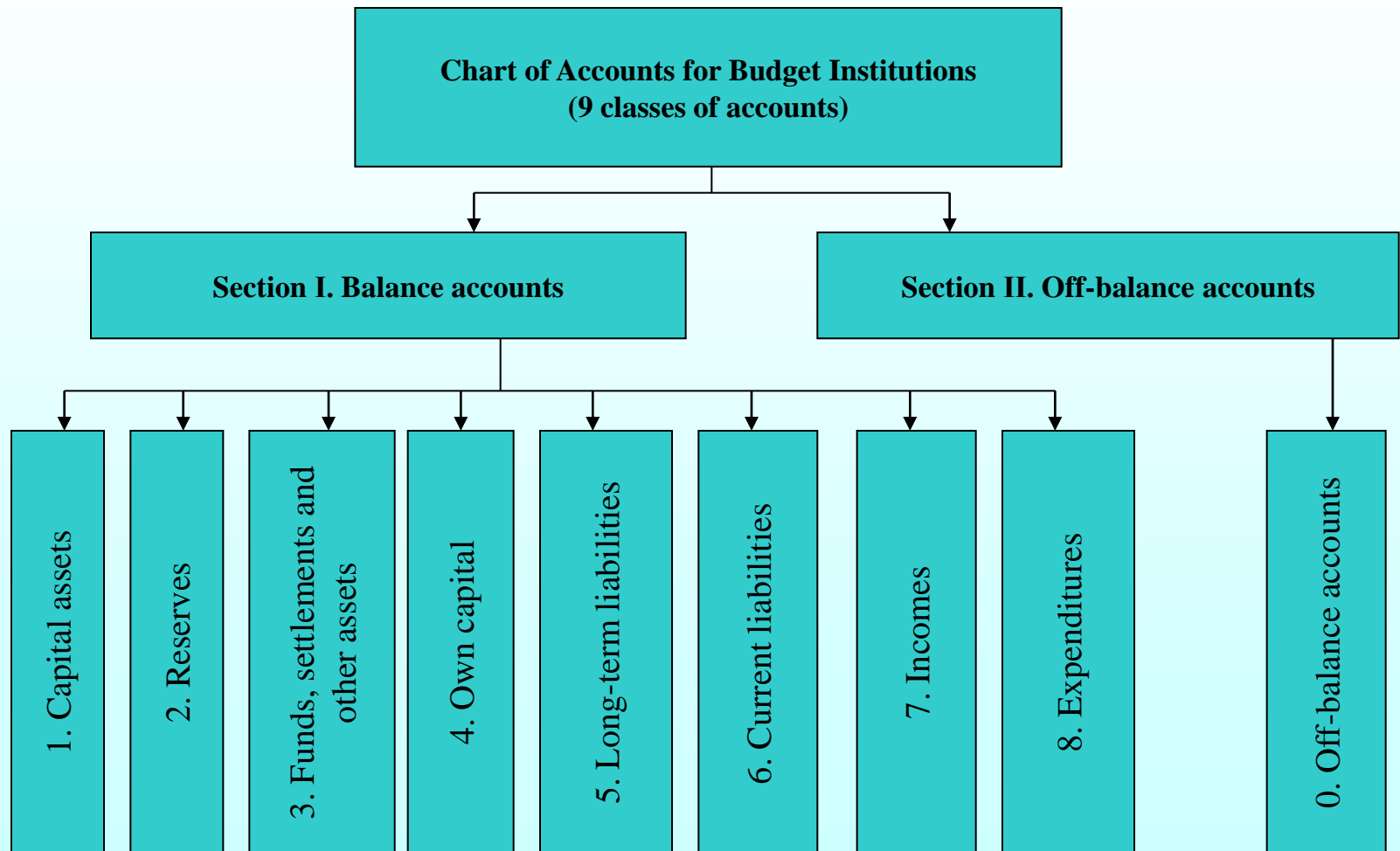
The Chart of Accounts uses decimal method of encoding of accounts with a three-digit number (subaccounts of 1st level)

Each account is divided into 2 sections:

section I unites balance accounts divided into 8 classes

section II unites off-balance accounts united within one class 0 "Off-balance accounts"

# Chart of Accounts Structure for Budget Institutions





# Reform of Accountings in Public Sector

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Ukraine approved a Strategy for Modernization of Accounting in Public Sector for 2007-2015 as part of the reform of accounting system (*Resolution no. 34 by the Cabinet of Ministers of Ukraine of 16.01.2007*)

## **Key elements of the Strategy:**

- Development and implementation of uniform national principles (standards) in public sector accounting
- Development and implementation of a uniform Chart of Accounts in public sector, to be in harmony with the Budget Classification

## National principles (standards) of accounting and reporting in public sector

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- MoF of Ukraine decided to approve 26 IPSAS-complying principles (standards) in Ukraine by late 2012
- This will allow implementing the accrual method in accounting and design financial reporting in public sector up to the international standards
- 5 principles (standards) of accounting in public sector have already been drafted





## Draft Uniform Chart of Accounts in Public Sector

- The draft Uniform Chart of Accounts is based on the Chart of Accounts for budget institutions and the Chart of Accounts for budget execution
- The design of the Uniform Chart of Accounts uses decimal encoding for balance accounts with 4-digit number
- The draft Uniform Chart of Accounts is harmonized with the current Budget Classification
- All transactions will be reflected by double-entry method
- The Uniform Chart of Accounts will ensure accounting of transactions by cash and accrual methods

# Structure of the draft Uniform Chart of Accounts in Public Sector

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Consists of **9 classes**:

- **Class 1 „Non-fiscal assets“**
- **Class 2 „Fiscal assets“**
- **Class 3 „Funds of budgets and budget administrators“**
- **Class 4 „Settlements“**
- **Class 5 „Capital and financial result“**
- **Class 6 „Liabilities“**
- **Class 7 „Revenues“**
- **Class 8 „Expenditures“**
- **Class 9 „Off-balance accounts“**

# Advantages of Using the Uniform Chart of Accounts

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- an instrument of harmonization of accounting systems in public management sector in Ukraine
- can be used by all actors of public sector
- accounting of transactions by accrual method, as well as financial reporting in conformity with international standards
- accounting of transactions specific to State Treasury (function of treasury and budget function)
- will ensure separate accounting of all transactions through correspondent accounts: by execution of budget administrators' own funds and budgets they administer



# Thank you for attention!

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