

Relationship between budget classification, chart of accounts and GFS

PEMPAL Conference
Istanbul 24-27 February

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Defining Chart of Accounts – International Federation of Accountants

A chart of accounts is a systematic coding system for the classification and coding of transactions and events within the accounting system

It defines the organization of ledgers used within the accounting system

Why have a Chart of Accounts?

- It is a systematic way to classify all financial stocks and flows
- It is simply a filing system for financial data
- A Chart of Accounts is the mechanism through which financial information is collected, processed and reported on

What is a Budget Classification?

A budget classification is a systematic coding system for the classification and coding of transactions and events within the budget system

It defines the organization of ledgers used within the budget system

Why have a Budget Classification?

- It is a systematic way to classify all financial flows (often limited to cash transactions)
- It is simply a filing system for financial data
- A budget classification is the mechanism through which (cash based) financial information is collected, processed and reported on

What is the difference between a CoAs and a Budget Classification?

- In many countries the terms are interchangeable
- In some developing and transition countries these terms have evolved to mean two different systems for recording financial information – even though the two systems are closely related to one another

What is the difference between a CoAs and a Budget Classification? (2)

- Budget Classification
 - *records cash or modified cash transactions*
 - *is controlled centrally through a treasury*
 - *provides reports against budget appropriations or estimates*
 - *could easily be termed a cash-based chart of accounts*
- Chart of Accounts
 - *generally uses modified accrual accounting*
 - *supports detailed account keeping in budget institutions*

A narrow view of the COA

However, in many of these countries the real purpose of the account keeping is for (internal) control – there is little focus on using the accounts for decision making

Which system is more important?

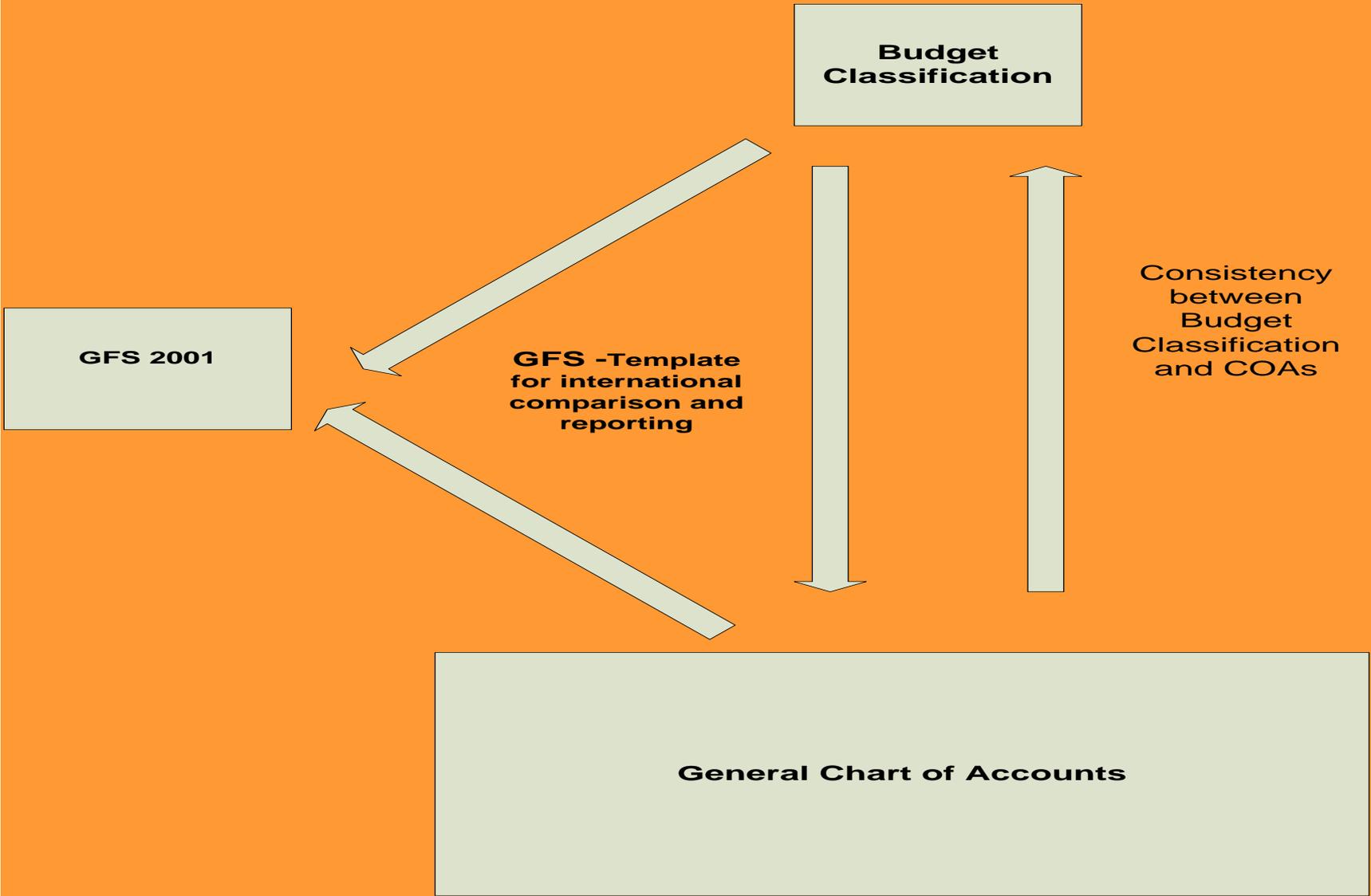
- Both are core elements of good practice public expenditure management
- In fact, in many countries the two systems are not separate but part of an integrated approach to public financial management: *budget control and reporting is not separate from, but part of, accounting*
- Thus, some countries choose to have two separate accounting systems with different numbers, while others have a single integrated numbering system

What is GFS?

- It is a statistical classification system designed for the public sector by the IMF
- GFS 1986 - Cash-based
- GFS 2001 - Accrual
- COFOG - Classification of the functions of Government

Why is GFS important?

- It provides a mechanism to create uniformity in public sector finances across all countries' public sectors
- It assists within transition countries by creating discipline around classification of financial transactions



**Budget
Classification**

GFS 2001

**GFS -Template
for international
comparison and
reporting**

**Consistency
between
Budget
Classification
and COAs**

General Chart of Accounts

	Fiscal Balance	Budget Classification - Description of Classes	Budget Classification Class Numbers
	Operating Cash Flows	Operating Receipts	1
		Less Operating Expenditures	2
	Add	Add	
Above the Line	Investing Cash Flows	Net change in Non Financial Assets	31
	Equals	Equals	
Below the Line	Financing Cash Flows	Net change in Financial Assets	32
		Plus Net Change in Liabilities	33

The Four Primary Financial Statements under Accrual Accounting

Balance Sheet
Statement of
Financial
Performance

Operating
Statement
Statement of
Financial Activity

Equity Statement

Cashflow
Statement

Current Budget
Classification

Current Budget
Classification

Full Chart of Accounts

