

**MICRO ACCOUNTING IN THE PUBLIC SECTOR**

*A study conducted for continuation of output produced for management purposes among federal government departments*



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### **ABSTRACT**

*Today, governmental accounting is not traditionally confined to fund and budgetary accounting only. It has developed deeper into the accounting discipline known as micro accounting, in providing detailed information for analysis to the management.*

*The term micro accounting in government signifies a better understanding of the management accounting discipline which is a combination of product costing and management. The cost information provided could be used to indicate the cost performance by analysing the cost trend and variances, which is useful for the planning and optimum utilisation of resources, budget control and activity management.*

*This technique to management approach was derived from the theory of activity based costing designed by Cooper & Kaplan (1988).*

*Thus, governmental micro accounting creates an information technology in providing accurate costing of product or output produced by federal departments for strategic management purposes.*

## Chapter 1

### INTRODUCTION

#### 1.1 Micro accounting in general

##### 1.1.1 What is governmental accounting?

In introducing the governmental accounting and financial reporting standards, the Governmental Accounting Standards Board (GASB) observes:

*Governmental accounting is an integral branch of the accounting discipline. It is found upon the basic concepts and conventions underlying the accounting discipline as a whole and shares many characteristics with commercial accounting.*

The GASB then states:

*The government environment differs markedly from that of business enterprises, however, and the information needs to be met by governmental accounting systems and reports differ accordingly. Thus, a set of basic principles applicable to governmental accounting and reporting has been developed.....*

*Principles and illustrations provide guidance primarily for accounting and reporting for governmental operations that are different from those of business enterprises. Accounting and reporting for governmental operations that are similar to business enterprises closely parallel commercial accounting and reporting and should be guided by standards.....*

## **Chapter 2**

### **UNDERSTANDING MICRO ACCOUNTING**

The Development Administration Circular No. 3 Year 1992 explains the meaning of micro accounting and how it could be implemented in the government agencies. It is briefly explained in this chapter.

#### **2.1 Objective**

The main objective in implementing micro accounting in the public sector is to assist the managers in determining the cost of outputs produced by government departments. It is a significant step towards entrenching cost consciousness and more accountability in financial and resource allocation and utilisation among civil servants. The cost information obtained would enable managers to make the following analysis:

- (1) comparison of planned output cost and actual cost;
- (2) determine the cost trends for producing similar outputs; and
- (3) determine the price to be set for a particular good or service.

In other words, the above mentioned cost analysis would assist managers in terms of planning and utilisation of resources optimally in their respective agencies. For example, comparison of planned output cost and actual cost would enable managers to identify the cost components that have been underspent or overspent. This in turn would enable managers to take corrective measures to control cost at the particular department.