



Lectures in Governmental and National Accounting

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Part One

Governmental Accounting

Chapter One The Theoretical Framework of Governmental Accounting

1- The Emergence of Governmental Accounting:

Studies that dealt with the history of the accounting system in the governmental sector indicate the existence of the so-called traditional accounting system and the modern accounting system. As for the traditional accounting system, it was applied at the beginning of the sixteenth century with the aim of increasing control over public funds. This system was first applied in Australia in 1768 and was known to a limited number of non-Germanspeaking countries and this system was concerned only with financial control and budget accounts and It was taken as a benchmark by Central European countries with regard to control operations, and this system has developed a little through the application of the accrual basis in relation to the preparation of cumulative data for the state, while directing the most of the operations of this system towards the processing and preparing of information related to cash.

As for the modern accounting system, it arose at the end of the nineteenth century by a person named Hiigli and began to apply it in the Canton Swiss city. From this moment, a new type of accounts appeared in addition to the accounts related to the budget, namely, the accounts of assets, customers and suppliers. Recording operations under this system were carried out. According to the double-entry theory, the governmental accounting system has become able to show the profits and losses resulting from business results. and the accounting system became able to show the accounts of assets, liabilities and budget accounts simultaneously with its ability to depict the accounts of governmental transaction costs.

In recent years, public sector institutions in many countries have increasingly adopted the practice of accrual accounting to replace cash basis accounting, and accrual accounting has become an important part of the reform movements of many countries in the public sector. The shift from the cash basis to the accrual basis is considered a development in the administrative aspects in order to achieve administrative efficiency in the governmental sector.

The shift from the cash basis to the accrual basis is seen by governments as part of a plan designed to reach a new form of governmental sector management and focus on performance effectiveness. Supporters of this accounting transformation believe that the accrual basis provides more appropriate information for decision makers, but this transformation is not an easy process, but rather requires a lot of time and effort, and its results are not fast and not significantly noticeable. One indication of this is that the transition to the accrual basis was announced in the United Kingdom in the early 1990s, but the tangible results of this shift have been very limited over ten years.

2-	Definition		of Governmental		nental	Accounting:	
Gov	vernmenta	l accou	nting	is a	special	system	for
measuring and communicating accounting information to							
the competent authorities, with the aim of controlling the							
resc	ources ar	nd uses	of	public	funds	allocated	d to
government administrative units. It depends on a set of							
governmental laws and regulations approved by the							
legislative authority in each country.							
Law No. 127 of 1981 defines governmental accounting as							
the	rules that	t the adm	ninistr	ative au	uthorities	adhere	to in
imp	lementing	g the s	tate's	genera	ıl budg	et and	their

referential remarks, recording and classifying the financial operations it conducts, and the rules of financial control before disbursement, The internal control system and the presentation and analysis of the results expressed by the financial positions and the final accounts of these bodies so as to give a true picture of them.

According to this definition, it can be said that governmental accounting serves a specific activity, which is governmental activity. This is the activity through which governmental units of all kinds can exercise their direct powers in planning and managing this activity.

Law 127 of 1981 also defined the scope of governmental accounting as follows:

1- The units of the administrative body of the state: It is represented in the ministries and governmental

administrative units affiliated to them and other administrative units included in the general budget for services.

2-The units of the local governmental administrations: It includes all the local administrative units represented in the governorates councils, provinces, cities, districts and villages.

3-Public authorities: of a service nature and all entities included in the state's general budget.

4- The special funds and accounts of a servicing nature set up by laws and by presidential decrees.

3- What is the governmental activity?

Governmental activity ranges from a full ownership and management of all the production and services activities, to being restricted to performing some necessary servicing activities. However, most, if not all, of the governmental units are intended to carry out services and non-profit-making activities, such as the security and defense of the society, education, health and so on. These units which provide public services are characterized by certain features which affect the accounting system in these units. These characteristics and their effects on the accounting system can be summarized in the following section.

4- The Main Characteristics of the Governmental units:

4-1 Governmental Units, in General, do not seek or aim at realising profits:

-Regarding governmental units, resources are generally allocated for the purpose of providing necessary goods and services to the society regardless of the ability of payment. -Accordingly, the projects of public services do not realise revenue.

-There is no need for matching between expenses and revenues for the purpose of determining net profit or loss. -The performance of governmental units is assessed according to quantitative and description measures such as social return of these services on the public and the degree of customers' satisfaction with the service provided, and the development of the cost of rendering the service over time.

-The governmental units may exert an economic activity, throughout owning and managing the public sector, which aim at profit and accordingly different rules and procedures of accounting should be applied.

4-2 The Absence of the Competition Incentive:

-In the field of the governmental activity, the governmental units usually provide the public with a necessary service which is not subject of exchange on the market as it is provided for free or against a nominal price in comparison with its cost.

-Also, the government may prohibit the private sector from providing some of the governmental services. This will tend to the absence of competition market in the field of providing a public services.

-Competition motives the units to practicing maximum effort in order to win over the prospective customer, by providing the best service and looking for reducing cost as one of the elements of competition.

4-3 In the Governmental Units, there is no direct relationship between revenues and expenditure:

-The governmental establishments provide their service to the public either free or against a nominal price which has no relation to cost and hence there are no revenues against providing services in these units.

-The governmental units acquire the necessary financing to cover their expenditures out of the public revenues of the State, which it obtains throughout its sovereignty over individuals, institutions and properties, such as taxes.

-Accordingly, the governmental units do not undertake reconciliation or matching between expenditures and revenues as it is known in relation to the preparation of the final accounts prepared by the business units.

-A settlement is made between expenses and revenues on the level of the governmental body annually. As a result, the characteristic of the absence of a direct relationship between the expenditure and revenues of the governmental units does not require the preparation of an income statement in these units.

4-4 Governmental Units are subjected to legal restrictions:

-Originally, the financing of the activities of the governmental units takes place throughout the allocation of the financial resources to these units in the light of their needs and requirements, and under the supervisory control of the governmental body.

-The People's Council (Representatives' Council) controls the appropriate allocation of the resources to the activities of the governmental body. Hence, the utilization of these resources by the governmental units is subjected to a set of legal rules which organise the unit's expenses of their own allocations, in addition to organising and regulating those cases in which the units exceed these determined allocations. Accordingly, the laying down of accounting systems is subjected to laws which determine the definition of accounting, its objects and its range of application, together with the accounting procedures and rules which are undertaken in evidencing the financial operations, the title of the accounts, their classification, the which necessary to evidence documents are the seriousness of the financial operations, the accounting books, the financial statements and reports, the final accounts and all that is related to the accounting system, in such a way as would achieve an effective control over public expenditure even if that would conflict with agreed upon accounting principles applied in business firms.

4-5 The Governmental Units properties are publicly owned:

-The governmental units are operated by means of the people's funds. So, they are considered a public ownership for all the individuals. This might tend to an increased property separation from administration, which would weaken administration's feeling as to the sanctity or holiness of public funds.

-As a result, accounting bears the burden of ensuring the sound direction of the economic resources towards the activities which would realize the best and peak interest. -The governmental units do not prepare a balance sheet which includes their assets and their funding sources as they do not need them. Registers for these assets are kept. The governmental units do not obtain a fixed capital which they could use in practicing their activities over their lifetime in comparison with the business organisations. These units acquire their needs and requirements out of current and capital financing by way of the State's sovereign resources annually.

5- The Objectives of Governmental Accounting:

The objectives of governmental accounting can be summarized from its definition as below:

- 1- The evaluation of expected revenues and expenditures and the ascertaining and evidencing the actually realized revenues and expenses by the governmental unit.
- 2- The disclosure of the soundness of the collection and expenditure operations regarding their agreement with the impositions of the laws, regulations and procedures.

- 3- Tightening control over the governmental units' properties against loss, embezzlement or misuse.
- 4- Disclosure of the financial and economic results of the governmental units' activities and programs, in terms of complying with the expenses of these activities and programs, and the achieved outputs.
- 5- The achievement of an effective administration control which would secure the sound implementation of the activities and programs.
- **6-** Providing information that would assist in the planning of governmental activities and their relative decision-making.

6- The Distinctive Characteristics of Governmental Accounting:

The characteristics of the accounting system in the governmental units which distinguishes it out of the

rest of accounting branches are summarized as follows:

6-1) The Accounting Entity:

The accounting entity means the economic body according to whose point of view accounting processes are conducted. This body undertake financial operations. The accounting entity may be an amount of money which is allocated to a specific purpose which has assumed the form of a corporation, or an individual firm.

The role of accounting in the governmental units has been focusing on showing the extent of the public units' obligation to spend the amounts allocated for them, for the purpose determined for them as well. In the light of that, the concept of the *allocated funds* is used to express the nature of the work of accounting in these units. According to this concept, the accounting entity is defined as being "resources allocated for the performance of specific tasks in the light of specific restrictions imposed by the laws, regulations and instructions, to which are subjected the governmental departments".

In the light of the above, the following facts can be extracted:

- *a.* The assets are defined as being the economic resources made available to the unit, and allocated for the achievement of its objectives.
- *b*. As for the revenues, they are the cash flows coming into the accounting entity, with the expenditures being the outgoing cash flows from the accounting entity.
- c. Accounting does not care about measuring profit in comparison with the concept applied in business units.

- *d*. The concept of capital is not used in the governmental units because they are public service units owned publicly.
- *e.* When the accounting system cares about depicting the equalization of the resources of the governmental unit with its expenditures, it is meant by that to show that the unit or the department has not exceeded the amounts allocated for each sort of expenditure.

6-2) The Bases of the Accounting Measurement of revenues and expenditures:

In the governmental accounting, the cash basis is considered the most appropriate basis to be applied. This basis is set upon considering the expenditures paid up or the revenues collected as concerning the financial period regardless of the period which has benefited from the expenses, and during which the revenues were realized. On the other hand, the accrual basis is applied for the following items at the end of the period, which are considered as exceptions:

- *a.* In the current budget, salaries and liabilities that result from working with third parties are measured according to the accrual basis. Accordingly, unpaid amounts relating to such items at the end of the period are charged to the current year appropriations, although they will be paid in the next year.
- *b*. In the investment budget, the accrual basis is mainly used in accounting for projects.
- c. As a result, the modified cash basis, which follows the cash basis in measuring and recording some financial transactions, while following the accrual

basis in relation to some others, is practically applied in the governmental accounting.

6-3) Fixed assets and depreciation in the governmental units:

The purchase expenses of the fixed assets in the governmental units are treated as being expenditure which concerns the financial year, same as with the rest of the current expenditures, although the preparation of the budget is distinguished in relation to the classification between the current and capital expenditures. As a result of the application of cash basis in the governmental units, there is no need to calculate depreciation on fixed assets. Current and capital expenditures are financed out of the State's budget.

6-4) Reserves and provisions in the governmental units:

Reserves are retained amounts, deducted for profits, to face future and contingent purposes. Governmental units do not need to retain reserves because they do not realize profits and the do not arrange for their expansion funds need or the loss coverage funds occurred by themselves, but obtain all their requirements from the State's resources. In addition, the accounting system applied in these units is based on cash basis when measuring or recording financial transactions. On the other hand, provisions are amounts which are deducted from revenues to face unknown certain loss. Governmental units do not need to account for provisions for the same reasons related to reserves.

6-5) Inventory adjustments at the end of accounting year:

Like business units, governmental units undertake periodical and sudden inventory taking for the safes (treasuries), stores and assets for the control and safeguarding purposes only. Such procedures don result in showing any effect on the final accounts of the financial year, as the purchase of fixed and current assets are treated as being expenditures which concern the financial year in which purchase was conducted.

6-6) Long-term obligations in the governmental units:

In the contrary to business units, obtained loans in the governmental units are treated as revenues or capital sources and on repayment of these loans, they are dealt with as being capital expenditures or utilisations. The governmental loans are used in purposes which do not realise resources which could enable the repayment of these loans; therefore, their payment relies upon the sovereign resources of the State.

7) The features of the accounting system in the governmental units:

Practically, the nature of the governmental units differs from that of the business ones. Accordingly, this tends to some of the characteristics which may not exist in the business units, especially the following:

- a. Documents in all the governmental units follow
 - a standardized form and their filling-in is governed by documentary cycles which usually achieve some objectives. They are considered an

objective proof of the financial operations involved and they achieve control over these operations throughout the stages of their fulfilment.

- b. The governmental units rely on a unified set of ledgers and accounting books which are governed by a unified set of accounting cycles.
- c. The financial reports in the governmental units are prepared in the form of uniform models, and according to fixed rules which are determined by the financial laws and regulations.
- *d*. As a result, work in the governmental units is done in the light of a budget prepared before the beginning of the financial year, containing the estimates of the revenues and expenditures for

the oncoming year. The governmental accounting system aims to showing the extent to which the governmental unit has complied with what has been indicated in its budget and hence the accounting system is connected with the denominations and classifications determined in the State's budget.

8- The Governmental Accounting System against Business Accounting system:

Governmental accounting is set up by means of laws which determine its definition, objectives and scope of application, including the documents, ledgers, books, financial reports and the documentary and accounting cycles. In comparison with business accounting system, the following could be observed:

- (1) It was discussed that governmental units are non-profit seeking units and the concept of capital is not found in such units. Hence, the statements of operations in the governmental accounting system are different from those in the business accounting systems. The traditional income statements, balance sheets, and other statements are not prepared in governmental accounting. In the different governmental units, of sets budgets and governmental reports are prepared to provide information required for public planning and control.
- (2) Accounting concepts such as costs, expenses, revenues, assets, liabilities, owners' equity, profits, income, loss,, used in business

accounting are different in application with those in governmental accounting.

- (3) Both governmental and business accounting systems apply the double-entry system of accounting, when recording transactions in books and ledger. However, the nature, types, and forms of original entry documents, books and ledgers are different. Books and ledgers used in governmental accounting are originally of statistical nature. Ledger accounts are connected with the State's budget instead of the financial statements.
- (4) Original entry documents in governmental accounting are limited in number and are of a form designated according to governmental laws and regulations, in comparison with those in business accounting.

9- The Governmental Accounting Principles:

According the discussion above mentioned, the most appropriate principles of the governmental accounting could be summarized as follows:

1- Financial reports in governmental accounting:

Financial reports in such units must disclose the results of operations according to the agreed upon and applied accounting principles. Such reports must disclose the extent to which the governmental unit involved is to comply with the dictated laws, regulations and instructions.

2- The accounting systems of the allocated or appropriated funds: The applied accounting system must be designed to serve the concept of allocated funds (being money which aims at achieving a certain specific purpose) as an accounting entity. The accounting system should disclose the expenditure position of the allocated funds, and disclose the extent to which this money has achieved the objective determined for it.

3- Kinds of Appropriated funds: The allocated or appropriated funds are divided into a variety of kinds: (a) Public appropriated funds which are allocated for the achievement of the public objectives of the governmental units such as the defense, security, and justice appropriations. (b) Funds appropriated from determined revenues which are made available out of a specific revenue, and legally appropriated for expenditure on specific purpose such as the Students' Activities Subsidy Fund. **(c)** Investment projects appropriations such as new constructions, roads, bridges, and so on. (d) Special improvement appropriations which are spent for the purpose of achieving improvement in certain locations against the imposition of additional duties in these places such as the ports improvement duties. (e) Public utilities appropriations are appropriations which are allocated for public utilities that provide the public with commodities or services similar to the business sector. These funds are preserved throughout selling the service or commodity at a price which would cover its cost. These

appropriations are not for expenditure, but they are to be utilized in the implementation of the work and the operations of governmental unit. They would be retrieved or come back from the sale of the commodities and services. (f)Domestic service appropriations that are allocated for the purpose of financing the commodities and/or services provided by certain governmental unit to other governmental units against receiving their costs. Hence, they are considered not expendable funds. **(g)** Appropriations from third parties to the governmental units. They are funds received from third parties in a form of trust on agency basis. They could be divided into expendable

funds and non expendable ones. The accounting treatment for non expendable funds is done in the same ways applied in the business units, that is, the accrual basis is applied. A statement of the financial position is prepared to show the assets and liabilities of the unit. These units provide their services against a price which would cover at least their cost. So, the funds allocated to these units shall be kept as they are. Also, these units shall calculate the depreciation installments as part of the cost of the service rendered and commodities provided in relation to non expendable funds (in the form of invested fixed assets).

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- 4- The utilization of the suitable measurement basis: Governmental units use the modified cash basis for expendable allocations or appropriations, as the cash basis is used in measuring the revenues and expenditures except those which shall be resulted from a liability of third parties and which have not yet been repaid, or the staff salaries or the portion executed out of the supply contracts or contractual agreements. Of course, regarding non-expendable allocations, the accrual basis is applied when measuring the expenditures.
- 5- The utilization of the budgetary system in control and preparing the financial reports: Accordingly, each governmental unit should

have the following: (a) A classified annual budget in accordance with the stipulations of the financial laws, instructions and regulations. (b) An accounting system consists and complies with the budget classifications in order to facilitate control over the implementation of the budget details. (c) Comparative financial reports portray what has been actually done in comparison with the budget contents and a comparison with the current year and the last ones.

6-Classifications of the transfers, revenues and expenses accounts: According to governmental accounting system, transfers must be isolated from revenues and expenses due to their different nature. Also revenues should be classified in such a way that would indicate and disclose the different sources of these revenues. The same way should be followed regarding expenditures. They should be classified according to their kind, the organizational unit for which they have been allocated, and the function performed. Revenues and expenses of the governmental units related to allocated nonexpendable funds shall be classified according to the system adopted by business units.

7-The generality of classification and expressions: In all governmental units, unified classification and unified expressions must be adopted, regarding the design of the accounting system, to achieve sound control and the facility of preparing the budget, the accounts and the financial reports and so on.

8-Financial reports in governmental units: Governmental units are required to prepare (*a*) financial reports at short financial intervals, monthly or quarterly, to satisfy the needs and requirements of control in due time and (*b*) an annual financial report covering all the accounts of the governmental unit in detail.

Questions and exercises:

<u>Choose the most appropriate answer for each of the</u> <u>following (Colour only one circle):</u>

 (1) Governmental units do not seek for profits, so no matching is required in their accounting system between....

- *a*. Resources and assets. *b*. Liabilities and equity.
- c. Fixed assets and depreciation. d. Expenditures and revenues.



- (2) The governmental activity...
- a. is a full possession and management of all the production and servicing activities.
 b. is confined to undertaking some necessary servicing activities.
 c. expands and tightens according to the economic philosophy adopted by the government.
 d. is the system of guarding the State, such as defence, security and justice activities.



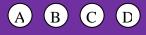
(3) The governmental unit property is...

a. a private ownership. *b.* a public ownership. *c.* financedfrom its owners. *d.* shown in its balance sheet.

A B C D

(4) The objective of governmental accounting is..

a. to govern the administrative entities when implementing the public budget of the State.
b. to compare the unit's revenues with its costs.
c. to depict the unit's financial position.
d. to show the unit's net result of performance.



- (5) The accounting entity in the governmental accounting is known as:
- *a.* allocated funds. *b.* joint property. *c.* judicial person. *d.* another definition.



- (6) The basis of accounting measurement which actually applied in the governmental accounting is..
- *a.* the cash basis only. *b.* the modified cash basis. *c.* the accrual basis only. *d.* another basis.
- (7) Fixed assets in the governmental units...

a. are dealt with as being capital expenditure. b. are duly benefited from throughout several financial years. c. are treated as expenditure concerning the financial year purchased therein. d. are shown on the balance sheet net of depreciation.



(8) Reserves and provisions in the governmental units are..
a. those amounts retained out of the profits. b. formed to face contingent losses. c. used to carry out expansions in the units. d. not considered.



10- <u>Indicate whether each of the following statements is</u> <u>true (T) or false (F):</u>

(1) At present, most of the governments have adopted a midway policy between full possession and management of all the means of production and services and confinement to the minimum limit of services.

T F

(2) The projects of public services do not realise revenues.

- TF
- (3) There is no competition market in the field of providing a public services.
- (T) (F)
 (4) There is no direct relationship between collections and

payments in the governmental units.

TF

(5) The governmental units acquire the necessary financing to cover their expenditures out of the public revenues of the State.

TF

(6) The principle of generality has been adopted and applied in relation to the allocation of the financing resources regarding public services which means that the allocation of the resources of a certain administration to cover the expenses of this such administration definitely.

TF

(7) The governmental units make reconciliation or matching between expenditures and revenues.

- TF
- (8) The existence of a sharp relationship between the expenses and revenues of the governmental units originates the need for the preparation of an income statements in these units.

TF

(9) The financing of the activities of the governmental units is done by means of allocating financial resources to these units according to their requirements and under the supervisory control of the units' boards of directors.

include their assets and their funding sources.



(11) The governmental units obtain a fixed capital which they could use in practicing their activities over their lifetime.



(12) The governmental departments get their needs and requirements out of the current and capital financing throughout the State's sovereign resources annually.

TF

(13) The difference in objectives and the nature of the activity in which the accounting operates both affect the structure and details of the accounting system.



(14) The concept of joint property of the accounting entity is based upon the accounting system adopting the point of view of the firm.

TF

(15) The concept of the judicial person of the accounting entity is based on the accounting system adopting the point of view of the owners.

(16) According to the concept of allocated funds, the work of accounting in the public services units has been focusing on showing the extent of these units' obligation to spend the amounts allocated for them, for the purposes determined for the as well.

TF

(17) The accrual basis of accounting is interested in the measurement and the recording of the financial period's expenses and revenues, regardless of the payment of the expenditure or the collection of revenues.

(T) (F)
 (18) The adoption of the cash basis necessitates undertaking inventory settlement and adjusting of the expenses and revenues, to add up the dues and exclude the advances.

TF

(19) The cash basis is more suitable for application in the firms which consider the fairness of charging the financial periods with what concerns them in terms of expenditures and revenues, such as the governmental units.

(T) (F)
 (20) The governmental units calculate depreciations for their fixed assets because depreciation represents an

element of cost which must be added to the other costs for showing the fair cost and those units are required to fairly compute costs, because of their following the system of balancing the funds.

(21) Governmental units do not need to form and retain reserves or provisions because they don't realise profits, they don't arrange for their expansion fund need, or the loss coverage funds occurred, by themselves.

TF

(22) Governmental units conduct periodical and sudden inventory takings of the safes, stores and assets such as the business units, for calculating what has been duly consumed out of these properties in order to add it to the costs of the financial year.



(23) The liabilities in the governmental units are dealt with as being revenues or capital sources and when they are repaid, they are treated as being as being capital expenditures or utilisations.

TF

- (24) The financial statements in the governmental units aim at depicting the operation results and the financial position.
- (25) According to the theory of the allocated funds, the accounting system is interested in showing the expenditure position of such funds, and disclosing the extent to which this money has achieved the objective determined for it.



(26) In the governmental units, fixed assets are dealt with as being expenses when purchasing them and as revenues when selling their wastes. In addition, these assets are evidenced and showed in contra-accounts which represent a reference as to the existence of these assets.



Chapter Two the State's General Budget

1 - The Definition of the State's General Budget:

Budget is a financial document includes all government revenues and expenditures during the next fiscal year and reflects the main guidance of the public policy for the government. As defined by the General Budget Law No. 53 for the year 1973 and amended by Law No. 87 For the year 2005, it is the annual financial program of the economic and social development plan set by the state in order to achieve multiple economic and social objectives.

And the budget in general, known also as an estimate of future revenues and expenses during a coming period of time usually a year. In light of the government's efforts to strike a balance between revenues and expenditures without asking for loans, both lenders whether internal (inside Egypt), known as loans or internal debt, or from lenders outside of Egypt (foreign) which are known as debt or foreign loans, preparation of the state's general budget is at top of the development priority reform agenda, where it was decided to update the classification, in accordance with law no. 53 of 1973, in order to bring more transparency and simplicity and clarity on the state's budget, according to the applicable concepts and definitions and internationally agreed upon

From such definition of the State's general budget, it appears that the governmental general budget is prepared by means of evaluating the expenditures and revenues which are expected for the next year. Furthermore, the following features could be stated in relation to the State's general budget:

- The State's budget is a plan or a program of the governmental work for the oncoming fiscal year and it is related to the general economic plan.
- The fiscal year of the budget starts from July 1st to June 30th of a year.
- 3. The State's budget derives its discretionary authority from the delegation of the legislative authority.
- 4. As a program, this budget includes the estimates of the state's resources and utilizations or uses for the next year and those estimates are approved from the legislative authority and accepted by all parties of the budget.

- 5. Expenditures indicated in the budget represent the maximum limit of funds that are allowed to be spent for a governmental unit. Nevertheless, revenues indicated in the budget represent only an indicator for what could be received of the revenues. Such anticipated revenues would be possible to exceed or to be less than the expected amounts, depending upon the State's economic conditions.
- 2- Laws and legislation related to the budget The process of preparing and implementing the budget in Egypt is governed by both the provisions of the constitution and the budget laws.

Egypt's constitution for the year 2014 presents the role of parliament in reviewing and approving the budget. It also clarifies the role of the Central accounting agency in managing audit operations with regard to accountability and compliance. More importantly, it requires setting minimum appropriations for the health sector, the education sector, universities, and scientific research. Moreover, it dictates the necessity to achieve a gradual increase in these appropriations to meet international standards.

The minimum appropriations for the health sector, the education sector, universities, and scientific research in the budget (as a percentage of the gross domestic product)

sector	appropriations from the budget (as a percentage of
	budget (as a percentage of
	GDP)
the health	3
Pre-university education	4
university education	2
scientific research	1

The Egyptian Law No. 53 of 1973, along with the related implementing regulations, constitute the rest of the legal framework that regulates the process of preparing and implementing the budget.

3- The Objectives of the State's General Budget:

In essence, the objectives of the State's general budget can be include the following:

1. The planning of the financial policy of the State for the oncoming year: The preparation of the state general budget includes the assessment of the governmental body's expenditures and revenues for the forthcoming year, in such a way at to tend to the creation of an economic growth in society.

- 2. The exposition of the government's programs for the next year: The state's budget is considered a governmental tool to implement the general plan and to achieve the economic and social objectives of the country. Therefore, it represents an exposition or exhibition instrument of the social and the economic programs to the representatives of the people.
- 3. The imposition of financial and legal control over the activities of the governmental units: In its nature, the budget represents how the financial activity of the governmental units should be, by specifying figures of the

expenditures and revenues of each unit. Accordingly, the budget is governed by a set of financial laws, regulations and instructions.

4- The Preparation's Principles of the State's General Budget:

The preparation of the state's general budget is governed by a determined set of principles which is derived from the nature of the governmental activities.

(1) The principle of the annuality of the budget:

The principle of annuality dictates that the state's general budget is to be prepared for a one coming year only, that is: from July 1st to June 30th each year. Such budget shall include the expenditures and revenues of this such year, independent from the budget of the previous year and the budget of the subsequent one. For activities which their

implementation would need a period that is longer than one year, such as investment projects and programs, these activities must be divided into parts to the extent that each part would fall within one of the budget years. The one year is considered an appropriate period for the preparation of the general budget for the following reasons: a. The period of the year is not too long to the extent that it would be possible to make estimates required with a reasonable degree of precision. b. The budget's preparation is considered effort and expenses consuming, which makes it costly to prepare a budget for less period. c. The period of one year covers the seasonal events which would occur during it, such as the collection of taxes in a given month.

The principle of the generality of the (2)**budget:** According to this principle, there is no allocation of the revenues of a certain governmental unit to cover the expenses of this same unit. For instance, tuition fees paid by the university students should not be allocated to cover the university staff' salaries or any other type of expenditures. Accordingly, all the resources of the government are assembled and reallocated for the different expenditures entities according to their importance. This principle was included under Article no. 95 of no. 53/1973, which stipulated that the Law evaluation of the revenues is to be effected without

deducting any expenses from them. Also, it was stipulated that it is impermissible to allocate certain resources to face specific utilizations except under necessary circumstances and conditions, as covered by a decree from the President of the Republic. Hence, this article has allowed the existence of exceptions from the non-allocation principle subject to the exception being covered by a presidential decree. One of those exceptions is the Ministerial Decree promulgated by the Ministry of Petroleum and Mineral Wealth that allowed to use the increase of petroleum price for expenditures such as roads repairs and maintenance.

<u>The principle of the flexibility of the budget:</u>
 It means by flexibility that the discretional power or

authority which is delegated to the person in charge of the implementation of the budget. This authority allows hem/her to alter or change what has been indicated or allocated in the budget. Accordingly, the heads of the governmental administrative units are authorized or permitted to transfer from some items of expenditures to others, if such action helps in achieving of the public interest. The principle of flexibility can be used in the implementation of general budget throughout a variety of means. The most common ones are the following:

a. Transfer from one appropriation with a surplus to another one with a deficit or shortage, without a need to refer to the legislative authority. **b.** The possibility to transfer from the allocations of specific entity to another one without a need to refer to the legislative authority.

c. It was stipulated, according to the financial instructions, that it is possible to include or increase expenditures at certain percentages in case of the increase in revenues.

d. The possibility of appropriating or allocating of contingent funds and authorizing to utilize them when needed at certain terms and conditions.

In Egypt, financial laws and instructions allow, throughout a certain amount of flexibility, the possibility of transfers in-between the items of the one and the same part on certain terms and conditions. Furthermore, the Minister of Finance delegates some of his/her discretionary authorities to the responsible officials in the governmental units, to achieve a certain degree of flexibility.

(4) The principle of the comprehensiveness of the budget: Accordingly, the general budget must include all the public expenditures and resources of the State, in such a way that no one of them would fall out of the budget. So, it is not allowed for the administrations that collect revenues to deduct collection's expenses or the levy expenditures from such revenues. As a result, revenues are included in full on the budget in addition to their involved expenses. Such treatment serves the legislative and the executive authority to achieve an effective control over the revenues and expenses. In addition,

comprehensiveness principle leads to identifying the financial position of the State in full, which will be considered as a disclosure of the volume of funds allocated by the state for rendering required services, in addition to the disclosure of the extent of the equilibrium of the general budget and hence the strength of the financial position of the State. According to Article no. 3 of Law 53/1973, the State's general budget is to encompass all the utilizations and resources of the State's activity undertaken by each of the administrative body, the units of the local government, the general authorities and the financing funds. Such principle is excepted such in the case of the donations funds which their donors could precondition that they

would be spent on a specific purpose, where such funds are lodged in special accounts beyond the budget.

(5) *The principle of balancing the budget:* This

principle necessitates that State's public resources must be equalized with its public expenditures. When resources are more than or exceed the expenditures, the increase is called budget surplus. On the contrary, when expenditures are over or above the resources, such difference is called the deficit of the general budget. The general budget surplus or deficit must be managed or planned in such a way that would not harm the State's economy. Theoretically, surplus expresses the soundness of the government financial position, but

it tends to screen off or hide part of the funds made available from circulation which may create a state of recession in the economy. In the same way, the deficit tends to create inflation. Hence, adopting such principle makes a possibility to create a sense of balance in the general budget either by decreasing the expenditures or by increasing the revenues or by both of them.

(6) <u>The principle of the budget unity:</u> Such principle governs the preparation of a unified budget for all the units of the State's administrative body. Such principle would give a general picture of the expenditures and the resources of the government, which would make it easy to be controlled by legislative authority. Although the

State's general budget is prepared out of a set of classified budgets according to the different governmental organizations, it is presented as one budget to the legislative authority.

5- The Classification Bases of Expenditures and Revenues in the State's General Budget:

State budgets are often written under these classifications: economic classification, functional classification, and administrative classification.

The Economic Classification

The economic classification of the state's general budget means classifying of government expenses and resources according to the type of expenditure or revenue and their objective, namely the division of public expenditure according to the objective of this expenditure (pay wages, purchase items, pay off loans, ..., etc.), and the division of public resources, according to sources (taxes, grants, other revenues, etc.). According to the economic classification, each chapter of the main chapters consists (in both sides of the uses and resources) of different groups, and each group include a number of items, which falls under each of several kinds. The goal of this detail is tracking government spending to the lowest possible levels in order to activate the supervisory role of the government spending.

Total Budget:

The uses side include eight chapters, which in turn represent different areas of spending, while the

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resources side includes five main chapters as illustrated in the following table: -

Resources	Uses
(1)Tax	(1) Wages and compensation of
	employees
(2)Grants	(2) purchase of goods and services
(3) Other revenue	(3) Interest
	(4) Subsidies, grants and social
	benefits
	(5) Other expenses
Revenues(3) = (1) + (2)	Expenditures = $(1) + +(4) + (5) + (6)$
	(2) +(3)
(4) Borrowing proceeds and	(6) Purchase on non-financial assets
financial assets sales	(investments)
(5) Borrowing and issuance	(7) Acquisition of domestic and
of financial securities rather	foreign assets
	(8) Domestic and foreign loans
	repayment
Resources = revenues	Uses = expenditures $+(7)+(8)$
+(4)+(5)	

The total six chapters on the side uses known by the term "public expenditure", and given that spending on these chapters is primarily associated with the activity carried out by the state. If you add Chapters 'seven' and "eight" to the first six chapters became our side "uses" is complete. It also called the first three chapters on the side of the resources known by the term "public revenue", so to refer to the sources of the funds obtained by the state, which are related to the government activity, and if Chapters "four" and "five" was added to the first three chapters, the resources of the state become complete.

In order to easily deal with the economic classification, and automating the preparation and implementation of the state budget processes, it has been coding all of the public uses and resources, according to the economic classification, where given to each chapter and underneath of the sub-groups, and the terms and types of specific code. This coding of the main chapters on both sides of resources and uses are shown in the following table:-

Resources	
Description	code
resources	1
revenues	11
First chapter "tax"	111
Second chapter " Grants"	112
Third chapter " Other revenues"	113
Fourth chapter " Borrowing proceeds and	114
Fifth chapter " Borrowing and issuance of	115
financial securities rather than shares	

The Functional Classification

Public expenditure are classified functionally or according to sectors, i.e. the distribution of spending on jobs or sectors and the goals that the government aimed to achieve, whether social or economic goals. It is worth mentioning that during the functional

classification of the state budget data, it is necessary to identify the extent of the equitable distribution of financial analysis Expenditure on jobs or various government sectors. This classification helps analysts or those in charge of public finance in general performance assessment through the presence of appropriate indicators and standards, study the effectiveness of government spending. Consequently functional classification allows studying the general trends of government spending on certain functions or purposes over time. One example of this, when we talk about the education sector, we find that this sector, according to functional classification includes all devices based on the educational process, whether within the central government which is meant here "the Ministry of Education and Higher Education", as well as the local dimension, which includes the departments of Education governorates, and universities, in addition to the entities of service to the education sector, as this concept applies to the rest of the functional sectors.

It is also, according to this classification, public expenses are classified at the level of the chapters of government spending, without addressing other details contained in the economic classification. i.e. without addressing the details of the groups, items or kinds. In addition, the functional classification enable to make a comparison between the states each other to stand on the extent to which governments in the economic and social functions, as well as the distinction between individual and collective services provided by these governments.

Public spending is divided according to the functions carried out by the government, such as health care, education or defense, security and justice ... This division helps in measuring the allocation of government available resources to carry out specific activities and to achieve a variety of goals. Any of which could see the relative importance of government jobs, which vary from period to period. According to another division of the government financial statistics the Government functions are divided into ten functional sectors, namely:

-Public services.

-Defense.

-Public safety affairs.

-Economic Affairs.

-Environment Protection.

-Housing and community facilities.

-Health.

-Youth, Culture and Religious Affairs.

-Education.

-Social Protection.

The Administrative Classification

It is a classification that provides information on the expenditures of government agencies and bodies, such as ministries and various departments, and this is particularly useful in knowing who is spending and disbursing money, allowing a degree of clarity, accountability and transparency.

It should be noted that the Egyptian state budget uses "double classification," which is budget proposals that combine economic, functional, and administrative classifications in a variety of ways. The administrative classification combined with the functional classification allows the reader to know how much the central and sub-departments spend. For example, regarding education in terms of job classification, what is the total amount spent on education, how much is spent by the central administration of the Ministry of Education, the central administration of the Ministry of Higher Education, schools, universities, and others.

6- Methods of Estimates the State's General Budget:

Accomplishment of the objective of the general budget regarding the planning and control of the governmental activities is depending greatly upon the precise of the revenues and expenditures assessments. The precision or accuracy extent of the expenditures and revenues also depends on the soundness of the methods adopted in estimating them.

Assessing the expenditures of the general budget is performed by considering the expenditures of the current year as being a minimum balance of the expenditure of the forthcoming year and adding or deducting required amendments by laws, regulation and instructions, such as employees' increments (علاوات) and promotions (ترقيات), in addition to new changes which are dictated by expansion in services, or improving their rendering, or adding new services. This is the general rule for evaluating the budgetary expenditures.

However, the estimation of some expenditures may be done directly, in response to special circumstances, as in case of being used for the first time, or as in case of some essential changes occurred with regard to the size and volume of the activity that requires increasing or decreasing the current figures of expenditures to cope with the size of the activity.

On the other hand, the assessment of the revenues depends on the economic conditions that are expected to prevail during the budget period (for example, revenues of petroleum and the Suez Canal rely on the circumstances of the international economy). In addition, the assessment of revenues depends upon the outstanding financial legislations and the amendments which are expected to be taken place during the budget period.

The possible methods of evaluating the revenues of the general budget are briefly as follows:

The direct assessment method. The direct assessment method of revenues is the mean by which revenues are estimated in terms of what could be received during the next year, in the light of the conditions expected to prevail during such year and in the light of the laws, regulations and instructions that govern the computation of these

revenues. The circular or the bulletin which was issued to govern the preparation of the general budget encompasses the following rules in regard to revenues assessment:

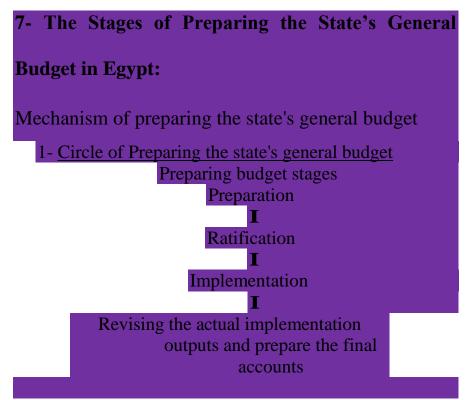
- *a.* Observing the actual and effective collections of revenues during the last three years and excluding the extraordinary and nonrecurring or non-repetitive amounts.
- *b.* Considering precision in assessing and avoiding excessive over-estimation or exaggeration.
- *c.* Taking into account the economic and social legislations that could affect the size of revenues.
- *d.* Relying of the assessment on realistic criteria and rates.

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e. Comparing of rates of revenue growth with those of economic growth and clarifying the reasons of differences if any.

The averages methods: When adopting this method, revenues are evaluated on basis of the average of collections during the last three or five years in addition to adding or deducting a percentage for expected changes which may occur. This method relies on real figures that would from protect them personal interference. nevertheless, it does not consider the amendments which could happen as a result of the financial and social legislations. In addition, it does not take into account the trends of the size of economic activity.

The previous year method: Like the above mentioned method, this method estimates revenues on basis of what they were in the previous year, rather than the previous 3 or 5 years. Some adjustments may occur, whether increases or decreases, on the last year estimates depending on what is expected to prevail during the next year in terms of new economic, financial and social legislations and conditions.



1. Preparing Stage

Generally, the process of preparing the budget have many stages that may divides according to the following steps: -

First: setting the general policies and objectives

The State's general budget sector at the Ministry of Finance prepare its proposal and recommendation, which should control the draft budget for the next fiscal year . the proposals and recommendations are presented after notifying of technical committees according to the current and projected economic conditions and potential developments that could affect the revenues and expenditure for the coming fiscal year. Such modifications which may arise on taxes, wages and items that may require large extraordinary expenses such as the payment of longterm loan. the trends or guidance, in which the state's budget should depend on:-

- Reduce deficit in the budget.
- Encourage local industries and the formation of the infrastructure of the economy.
- Increase the welfare of members of the community as a whole.
- Control and rationalize public spending.
- Reducing the effects of inflation.
- Development of state self-resources
- Renewing the priority programs and services .

After the completion of setting the final theme of the budget policy, the Minister of Finance present the results of this study to the Cabinet for approval, and then these proposals and recommendations becomes general indicators that must abide by the executive authority to prepare the draft budget.

Second : Issuance of budget Circular

In light of the general indicators approved by the Council of Ministers, the Ministry of Finance published each year a periodic circular informed to all ministries and public institutions early, accompanied by a set of necessary regulations for the implementation of the budget policy, including special instructions on how to complete the forms and worksheets that must be used when preparing the budget. As well as the dates of submission of budget proposals to the Ministry of Finance, abided by all the individuals responsible for the development of proposals and reviewing the various stages of the budget.

Third: the issuance of draft budgets

The ministries initiate the process of preparing their budgets before the start of the budget year period ranging between six and eight months. as remains in front of the Ministry of Finance enough time to study, discuss and make the necessary adjustments, before submitting to the cabinet, so that every minister or head of a public entity shall inform the circular of the state budget to government departments and units and the competent departments with a request to comply with its content. As The preparation of the concerned ministry budget have to be done within specified time limits. each entity form a specialized committee to prepare their draft budget, according to the outcome of the actual results of the implementation of the budget during the previous three years, taking into account the real growth and inflation rates, on the basis of standards and patterns of quantitative and technical and economic studies and research that lead to the achievement of planned objectives, and considering the exclusion of any extraordinary income realized during a given year.

After the Central Committee in the ministry or institution receive estimates of sub-committees, it study and evaluate and coordinate among them and then set up a budget according to the level of the ministry or institution and then submitted to the Ministry of Finance. It is worth mentioning that, the Ministry of Finance also prepare its own budget like any other executive ministry.

Fourth: Preparation of the draft budget at the state level

When the general budget sector receive draft budget from ministries and public entities, it study and evaluate and coordinate, in conjunction with the delegates and representatives of the ministries and entities, at the level of each chapter of the budget and then the Ministry of Finance prepare a table (a) the state's revenues estimates, and a table (b) the state's expenses estimates. then includes two tables in a single document to be represented the state's budget then submitted to the Cabinet.

Fifth: Ratification of State's general budget

Draft budget is presented to the Cabinet before the beginning of the fiscal year by at least three months to be studied and modified if necessary. Then submitted to the parliament, and the ministers of finance and planning, each in-relevant, delivered a statement within Parliament. represented in "the Plan and Budget Committee" discuss the general budget and hold listening sessions and meetings with officials of the authorities in the presence of representatives of the Ministry of Finance and prepare a report on the budget presented to Parliament to approve the new budget as to start use it by the first of July for each year.

Sixth: Report budget to ministries and public entities

The Ministry of Finance report to ministries and public entities, in relevant, through issuance periodic book includes rules to be adhered to when implementing the budget.

2-Ratification stage

Once parliament ratified the budget, law is issued known as the budget law. The legislator has authorized, under certain controls and does not prejudice accuracy of financial planning.

3-Implementation stage

After the ratification of the draft budget, it becomes a law, and start work with it at the beginning of the fiscal year, and after the implementation stage begin, and the Minister of Finance follow up spending on all chapters except sixth chapter which is the responsibility of the Minister of Planning and National Investment Bank as follow-up investment spending.

4. The final accounts stage (the actual implementation outcomes):

The Final account of the ministries and government departments :-

After the closure of the last month of the fiscal year account on the date set by the Ministry of Finance, the ministries and government departments prepare its own reports and schedules and submit them to the Ministry of Finance.

After that the ministries and government departments prepare their final accounts with an explanatory memorandum supported by the figures for these accounts

After the completion of the final account of the Ministry

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(consisting of revenue and expenditure statements and

accounts settlement) all statements to be the signed from the President of the authority or on behalf of the Director of Finance Administration department.

 Then send a copy of the final account statements to the Ministry of Finance.

The final account for public entities

Each public entity must make inventory for all its assets whether fixed or movable by end of every year.

All the assets that devolves to the authority of the third party should be in the form of in-kind donations and assets recognized in the authority.

■ By the end of the fiscal year, a list is prepared

showing the financial position of all the assets and liabilities as well as revenues, expenses and current expenses at the special accounts of the Ministry .

The external auditor should review the final account and the accompanying statements and the financial status list.

The final account of the state

- The general department of accounts of the Ministry of Finance. review the final accounts received from ministries and governmental entities and match them with monthly tables for the same ministries throughout the year.

- Based on that, the general department of accounts of the Ministry of Finance set up a final account of the state to monitor all revenues and expenses and the types of accounts settlement for all ministries and authorities.

- In accordance with the provisions of article no. 3 (1) of chapter four to the budget law, "the Ministry of Finance transmit the draft original budget of the final accounts and its detailed data, to the parliament and the CAA within nine months of the fiscal year end. With the new amendment of

the constitution, become six months instead of nine months. And the, after the completion of the summaries of the final accounts for all ministries and government departments and collected in a single summary. the Ministry of Finance raise the final account to the Cabinet and the parliament no later than the last of the fourth month of the following fiscal year for ratification, according to article no. (125) of the Constitution, which reads, "The final account of the state's general budget should be presented to parliament, during a period not exceeding six months of the fiscal year end, attached with the annual report of the Central Agency for Accounting and its observations on the final account."

8- Efficient entities in the state's general budget
Ministry of Finance and responsible for the following:
The preparation of the draft general budget and presented to parliament to issue the budget laws.

- The preparation of the final accounts laws.
- Issuing quarterly reports to follow up on the financial performance.

The Ministry of Planning. It prepares the investment

draft budget for state entities in coordination with the Ministry of Finance in preparation for the issuance of original budget laws.

Parliament, Its role is mainly in:

- Ratification of the draft general budget, and make adjustments on the appropriations of some entities.
- The right to ratify the financial appropriations during the fiscal year.
- Follow-up results of the implementation of the budget and approve the final accounts.

CAA, and responsible for:

 Examination and auditing of the financial results of the implementation of the budgets of various entities. - Preparation of accounting reports on the results of the implementation of the budgets.

9- How can citizens participate in the process of preparing and implementing the budget?

In order to bring the state budget closer to the public, The Ministry of Finance publishes many reports and documents, the most important of which is the simplified version of the state budget - Citizen Budget –Booklet. Which is issued in the month of September of each year, in order to help citizens understand it better. In addition, the Ministry of Finance launched online an platform(www.budget.gov.eg), through which citizens can participate in the processes of preparing and implementing the budget, This is in the form of sending questions, posting comments, receiving answers and relevant responses in a timely manner, etc.

Citizens can also send their opinions and suggestions through the social media pages of the Ministry of Finance(www.facebook.com/MOF.Egypt).

The Ministry of Finance introduces and implements a participatory budgeting project in Egypt. Participatory budgeting aims to improve the efficiency of public spending, and it is one of the governance tools and fighting corruption, as it depends on cooperation, integration and creating a link between citizens and relevant governmental and non-governmental bodies. Which improves the daily life of the citizen. The Ministry of Finance relies mainly on implementing the concept of participatory budgeting on raising awareness of the most important government plans and financial policies of the Ministry of Finance. Consequently, the citizen becomes a partner in the process of sustainable development and decisionmaking through participation in preparing the budget at the local level, which enhances transparency and raises the level of citizen satisfaction.

Which is one of the most important points of the Egypt Vision 2030. The plan of the Ministry of Finance to implement participatory budgeting through the next years includes the gradual establishment of a network that includes various parties such as (civil society organizations, representatives of the governorates and ministries, parliament and some local authorities). Increase awareness and knowledge of the concept of participatory budgeting and start the process of designing a future (Egyptian model) for participatory budgeting.

Questions and exercises:

<u>Choose the most appropriate answer for each of the</u> <u>following (Colour only one circle):</u>

(1) The State's general budget is....

a. a balance sheet. *b*. an income statement.

c. a cash flow statement. *d*. a financial program of the next year.



- (2) The State's public budget...
- *a.* is prepared on the central level only.
 b. is finally prepared throughout the governmental units.
 c. is prepared by means of evaluating each governmental

unit expenditures and revenues and then collecting these evaluations or assessments to constitute the general budget. *d*. is a carbon copy of the last year.

A B C D
(3) The expenditures indicated in the budget represent ...
a. the minimum limit of what the governmental unit can spend. b. the maximum limit of what the governmental unit can spend. c. an indicator as to what could be spent. d. the figures which could be amended in the next periods.



(4) The objective of the State's general budget is..

a. the planning of the financial policy of the State for the forthcoming year. *b.* to compare the unit's revenues with its costs. *c.* to depict the unit's financial position. *d.* to show the unit's net result of performance.



- (5) Which of the following is *not* one of the objectives of the State's general budget:
- a. The preparation of the budget for an oncoming year. b.
 Controlling governmental units' activities. c. Exposing government's programs for the next period. d. Planning expenditures and resources to lead to the creation of an economic growth in society.
- (6) The year is considered a relevant period for the preparation of the public budget for the following reasons *except*..
- *a.* It would be possible to make reasonable estimates. *b.* It would be possible to determine the net result of the governmental unit. *c.* It would be expensive to prepare it for a short period. *d.* It would be possible to cover all the seasonal events.

- (7) Flexibility can be realised in the achievement of the budget by several methods *except*:
- a. Transfer from one fund with a surplus to cover a deficit of another one. b. Transferring from the allocations of a certain entity to another one. c. The possibility of inclusive of the expenditures at certain percentages in case of the decrease in revenues. d. The authority to use the allocated contingent funds when needed.
- A B C D
 (8) The comprehensiveness principle of the budget means that..
- a. the budget must include the majority of the public resources and uses.
 b. some resources and uses may fall out of the budget.
 c. it is not allowed to deduct the levy expenses from the collected revenues.
 d. the revenues are to be shown in net amount on the budget.



- (9) The functional classification of the public expenses achieves the following *except*..
- *a.* the disclosure of the performance cost of each administrative unit. *b.* the analysis of the development of expenditure as to each function. *c.* the relativity of services with the number of beneficiaries. *d.* the identification of the efficiency and the economicality of expenditure for each service.

A B C D
 (10) The direct assessment of the budget revenues must consider..

a. the extraordinary revenues. *b.* the optimistic evaluation. *c.* the personal legislations. *d.* the reliance of the assessment upon realistic criteria and rates.



7- <u>Indicate whether each of the following statements is</u> <u>true (T) or false (F):</u>

- (1) The State's public budget is prepared throughout each governmental unit assessing its expected uses and resources for the current year.
- (2) The legal definition of the budget refers to the necessity of the evaluation of the expenditures being connected with the economic and social development

^{pl}T F

(3) The size of the governmental expenditures results in seeking out resources in order to cover such a size of expenditures.

TF

(4) The public budget is considered an exposition instrument of the social and economic programs to the executive government.



(5) The budget represents how the financial activity of the governmental units should be, by specifying objective figures of the expenditures, revenues, and net result of each unit.

TF

(6) The principle of the annuality dictates the preparation of the budget for an oncoming year, including expenditures and revenues of this such year, dependent on the budget of the previous and subsequent year.

TF

(7) The principle of the generality of the budget stipulates that there would be no allocation of the revenues of a certain governmental unit to cover the expenditures of this same unit.

TF

(8) If the oncoming year assessments of studying expenses paid up by the university students are 100 million pound and the salaries of the university staff are 80 million pound, the resources of the State, regarding this type of revenues, should be lodged on the budget as 20 million pounds.



(9) If the total budget utilisations for a given year were
 100 milliards and the total budget resources of that year
 were 70 milliards, the amount of budget surplus will be
 30 milliards.

TF

(10) The balancing in the public budget could be undertaken either by cutting down expenditures, or by increasing the revenues, or by both of them.



(11) The principle of the budget unity is based on the unity of the governmental body and the unity of the resources which it earns for expenditure there from when performing its functions.

(12) The principle of the budget unity is connected with that non-allocation, wherein the public resources are assembled and grouped for re-distribution to the different utilisations according to their priorities.

TF

(13) According to the qualitative classification, expenditures are classified as per the kind of expenditures or there purposes.

TF

(14) According to the organisational classification,expenditures are classified according to the activities of

the administrative units which constitute the governmental body.

TF

(15) The functional classification achieves the specification of responsibility as to the governmental expenditure, for safeguarding public funds.



(16) According to the economic classification, expenditures are tabulated into current expenditures, and transfer expenditures.

(17) Salaries and wages are examples of current expenditures.

TF

(18) Current expenditures result in obtaining benefits over

a number of financial years.

TF

(19) Capital expenditures aim at constituting new assets, which result in obtaining benefits related to the financial period.

TF

(20) The payment of instalments and interests linked to the public debt represents transfer expenditures.



(21) Real or actual expenditures lead to the consumption of part of the State's resources.

TF

(22) Transfer expenditures are those which tend to the transfer of part of the wealth from one certain entity to another one, without that resulting in the consumption of part of the State's resources.

T F

(23) In accordance with the economic classification, capital revenues represent an annual source for the acquisition of revenues, such as in the case of the sale of land owned by the State, or any other assets, and also local and foreign loans contracted by the government.



(24) According the method of averages, revenues are assessed on basis of the average collected during the previous year.

(25) According to the previous year method, revenues are evaluated on basis of what they were last year, in addition to considering expected increases and decreases as a result of changes in prevailing conditions. (26) Control in the governmental units aims at ensuring that these units have complied with budgeted funds and they have followed the financial laws, regulations and instructions.



Chapter Three Government Financial Management Information System

Introduction:

Prime Minister Decision No. 2374 was issued at 2017, which obligated the units of the administrative body, units of local governmental administrations, public authorities, authorities that service have special budgets and other units included in the state's general budget. all authorities entities with and and independent budgets that are listed as a single number in the state's general budget by implementation of the Government Financial Information Management System (GFMIS).

1- Deficiencies in the manual governmental accounting system:

The Ministries Automation Project issued by the Ministry of Communications and Information mentioned a number of problems and complications facing manual governmental accounting systems in their current state, which are as follows:

1-The current systems are designed with the aim of monitoring the disbursed and aspects of disbursement, not following up on the performance of administrative units and workers compared to what has been disbursed.

2- The current manual systems cannot be used in the application of program and performance budgeting.

3-Difficulty of collecting and processing data to obtain clear indications in a timely manner.

4- Difficulty in maintaining and circulating historical data.

5- Repetition of data for the purpose of review and control in more than one place, which leads to the possibility of errors and mismatches between the data.

6- Slow procedures as a result of relying on paper documents in dealing and repeating the entry of the same data in more than one place.

7-The difficulty of extracting statistical reports that depend on old historical data and those that depend on data from different departments.

8- It is difficult to monitor the employees' work in

order to tighten control and determine responsibility for mistakes that may occur, intentionally or unintentionally.

2- Ministries automation Project:

Project definition: The project of automating the ministries in Egypt is one of the projects of the egovernment initiative that was launched in July 2000, and since its inception in October 2000 until now, many steps have been accomplished for its efficient implementation in order to achieve its objectives.

Project goals:

At the beginning of planning for the automation project, the following goals were set:

A- Raising the efficiency of governmental

performance by modifying work cycles and using information technology (reducing the circulation of paper forms, increase achievement rates, while tightening the review and monitoring mechanisms).

b- Develop a unified design for typical government applications databases.

C- Providing the government's information infrastructure in order to monitor and plan its human and financial resources.

D - Business division among a number of local companies with the aim of revitalizing the software industry in Egypt.

To achieve these goals, proposals have been developed to improve the governmental work cycle,

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provided that these proposals are applied during the implementation of the project. These developments include the following:

- Adopting the automatic business flow method across different sections and departments, instead of the traditional method that relies on the frequent circulation of paper documents.

- Unifying the database used in all applications so that statistical reports can be extracted easily.

- Automatically identify input errors during data entry to help obtain reliable outputs.

- Taking into account the rules and regulations during the implementation of the programs in order to facilitate the adoption of these applications by the regulatory authorities, and then the spreading of these applications in all government bodies later.

3- Positive effects of the introduction of the automation system on the governmental accounting system:

There is no doubt that the application of the automation system, computer and information technology system in the field of accounting work in general and government accounting in particular has become a necessity imposed by the nature of the work itself on the one hand, and the e-government program on the other hand, due to the advantages and benefits that these means achieve, The most important of which are the following:

A - Accuracy and speed in implementing the steps of the accounting approach, from preparing documents and entering data, then conducting recording, classifying, summarizing, preparing and analyzing financial reports.

B- The ability to save and retrieve huge amounts of data and information when needed, while maintaining the confidentiality of this information.

C - The possibility of using quantitative and statistical methods in accounting work and then the integration of information systems.

D - Facilitating the preparation of the state's general budget, and the possibility of applying modern methods in its preparation, such as the program and performance budget.

E - The possibility of dealing with financial transactions that take place using electronic payment

methods, in addition to the use of networks in the communication of accounting information.

4- Negative effects of the introduction of the automation system on the governmental accounting system:

It is expected that some problems will arise when applying the governmental accounting automation system, some of which are related to the outputs of the system, some of which are related to internal control and finally what is related to the security and integrity of government accounting information.

A - The difficulty of practical application to obtain accounting reports problem, as in light of the complete electronic environment and dealing with the Internet, the outputs of the system in a manual way become ineffective, As a result, it has not achieved its required objectives in the field of traditional accounting disclosure.

B - The problem of internal control, since internal control is a basic pillar of the components of the governmental accounting system, and is mainly achieved in what is known as internal control before disbursement, and given the nature of the electronic data process system, several studies have concluded that the most important internal control problems in light of the use of electronic computers are:

- Many financial decisions and actions are made by the computer, where the operations data and the main file data are often concentrated in the central computer in the network of computers distributed in all government administrative units.

-Difficulty of separating jobs, as electronic operation means that one person performs all activities (input, processing and output).

-Lack of tangible physical evidence and switch to using electronic files.

C- The problem of the security and safety of accounting information, in light of mechanization, the accounting data related to the financial and economic operations of the government administrative unit with other government administrative units or a sector of the national economy will become characterized by the inability to see its electronic path, due to the disappearance of paper records and books.

5-The GFMIS system and its complementary
<mark>systems</mark>
First: Government Financial Management Information
System (GFMIS): Accounting information and its
quality play an important role in the management of
ministries and government units, and that one of the
most important reasons for the development of
accounting in general is the provision of accurate
information in a timely manner to make decisions,
whether for the administration or for interested parties
concerned with this information. The Government
Financial Information Management System (GFMIS)
is one of the most important enterprise resource
planning (ERP) systems that have been applied in the
field of government accounting and public finance.

Where it worked to complete all financial and
accounting work procedures, and replaced manual and
paper methods with methods that used computers and
technological developments. This system unified
financial systems and procedures by providing a
comprehensive financial database that supports timely
management and financial decision-making, as
financial information flows between ministries,
government units and the Ministry of Finance in a
secure technical environment.

6- The establishment of the government financial

management information system in Egypt:

	nergei	ice of	t the	Go	vern	ment	Finar	ncial
Manage	ment I	nforma	tion S	ystem	(GF	MIS)	began	as a
first sta	ge in	Egypt	from	2004	to	2009.	when	the

automation of the preparation of the state's general budget was started, starting from the stage of entering the opinion of the authority, until the stage of issuing the state's general budget law and automating the preparation of final accounts, And issuing all the reports required for the final accounts sector, all through the first accounts chart that was prepared in with Raya Information cooperation Technology Company, where it only stayed a little due to the emergence of some technical problems related to budget classification and the balance section, And the lack of flexibility to make adjustments during the various stages of application, and therefore the work with the first accounts chart was canceled, and a new chart of accounts was created in cooperation with

Bearing Point Company, and it was called the second
chart of accounts according to the Oracle system
version No. 11 to be used in preparing the state's
general budget according to the Public Budget Sector
system where the project was successfully completed
and all required reports were produced.
During that period, the accounting unit of the General
Secretariat sector in the Ministry of Finance was
automated, as well as the accounting unit of the
Minister's office sector, a comprehensive automation
of all applications, both financial and budget, and then
the automation of the six accounting units in the
finance sector of the Central Administration of Central
Accounts in the Ministry of Finance began. Then start
automating the budget bodies by training the

representatives of the Ministry of Finance (accounts
agents) in these bodies to enter the budget draft of the
body (the opinion of the body) and also to enter
financial account form per month in the so-called
automation of data circulation, and 100% of the
budget bodies were mechanized on entering the budget
draft of the body/authority, and 70% of the accounting
units were automated to enter financial account form.
The Egyptian government authorities decided in late
of 2009 to automate the implementation of the public
budget in Egypt through the application of the
Government Financial Management Information
System (GFMIS) as an essential step to help reform
public financial management in the government sector
in Egypt. For this purpose, the Egyptian Ministry of

Finance contracted with Booz Company to conduct a diagnostic study for the public financial management, and for this the company held several meetings with all sectors, departments and units responsible for preparing and implementing the state's general budget within the Ministry of Finance, To get aware with the current situation of the general budget cycle and to add the necessary adjustments to the current cycle, in order to build a sound system for managing financial information in the government sector in Egypt. As a result of that study, a new chart of accounts was prepared and named after the third chart of accounts, and it was prepared according to the Oracle system version No. 12, where the third chart of accounts was used in the implementation of the state's general

budget.

Based on the design of the third account tree, it was planned that the Egyptian Ministry of Finance would first partially implement the government financial management information system, as it would be activated in all accounting units in order to achieve financial control over governmental payments and achieve transparency in all financial transactions, then the application in a comprehensive manner, as all subsystems of GFMIS systems would have been implemented and integrated with payment systems, electronic collection and payroll automation, and then it would be generalized to all accounting units, and in late of 2010 the actual use of the third chart of accounts began and the actual application of GFMIS

systems To increase financial control and raise the
efficiency of public money management, which is the
goal to achieve during these following stages, the
application project was halted in 2011 as a result of the
events of the January 25 revolution. In 2012,
technological solutions were started to automate the
salaries of employees in the General Secretariat sector
in the Ministry of Finance and then the Minister's
office sector within the Ministry of Finance on Oracle
applications to automate employees' salaries.
In 2017, actual measures were taken to re-implement
GFMIS systems And linking it to the updated unified
treasury account through the electronic payment and
electronic collection system at the level of accounting
units in the Arab Republic of Egypt through two

stages, which are as follows:

The first stage: The implementation of the GFMIS systems was started on 1/8/2017, where the Minister of Finance announced the launch of activation through activating the budgetary bodies with one responsible for the general budget transactions, and activating the accounting units by four trainees who prepare the cash flow plan and recording the accounting entries (form by form) and the review and posting of accounting entries by representatives of the Ministry of Finance at the entity. All the previous steps for the first phase were carried out through the third chart of accounts, with the implementation process linked to the unified treasury account through the electronic payment system, to ensure that the bodies/entities do not exceed the budget appropriations allocated to them. And that is after the end of the second chart of accounts, on which the stages of preparing the state's general budget are completed until the issuance of the budget law, then the credits are transferred to the third chart of accounts to activate the governmental financial management information system GFMIS, And then preparing the final accounts and financial reports at the end of the fiscal year through it. The implementation of the first phase at the level of accounting units within the Arab Republic of Egypt has been completed. The Ministry of Finance is currently seeking to implement the second phase of GFMIS systems, in addition to applying the electronic collection system and linked it with GFMIS systems.

The third stage includes the application of the
following systems, namely, the accounts receivable
system and the system of accounts Payable and Cash
Management Applications, Employee Salary System,
Inventory Management System, Purchasing
Management System, Debt Management System,
Grant Management System and Revenue Management
System (Tax Systems).
7- Introduction to the Government Financial
Information Management System:
Financial management information systems FMIS is
the starting point for financial management systems
before they are allocated and re-designed to be
consistent with the working conditions in the
government sector or the private sector, as it is one of

the enterprise resource planning systems (ERP), while
the government information management system
GFMIS is customized to suit government sectors and
correspond to the classification of The state's general
budget according to the government financial statistics
system GFS, which was prepared by the International
Monetary Fund in 2001 To increase the efficiency,
effectiveness and standardization of the procedures for
preparing and implementing the general budget of
country, by increasing the details in the classification
of the state's general budget according to the
economic classification, and to facilitate the
application of modern budgets, GFMIS systems are
multi-component systems, but it is possible to apply
only parts of them, such as: dependence on the general

ledger, flow plan, commitments, review and posting as a first step. In this case, GFMIS systems have been applied incompletely, as is the case now in Egypt, While IGFMIS integrated government information management systems are GFMIS systems, but after their complete and integrated application on all sections of the state's general budget and also after their integration with other systems applied in various government sectors, the range and scope of IGFMIS systems can vary from a simple general ledger system to a comprehensive integrated system that addresses general ledger, budgeting, revenue, spending control, debt, resource and human resource management, inventories, payroll, accounting, financial reporting audits across central government and or even

including local government, the public sector and various operations.

The Egyptian Ministry of Finance has defined GFMIS systems as an electronic system that connects all governmental entities, authorities, with each other, to the central government, and it includes all functions of public financial management from financial, accounting and non-financial operations.Which takes place with all phases of the state's general budget life cycle, starting from the strategic planning phase and ending with the reporting and follow-up phase.

8- Objectives of applying the government financial information management system:

The objective of the accounting information system is to produce accurate reports in appropriate time, to help decision makers make their rational decisions with high efficiency. The Government Financial Information Management System (GFMIS) has been applied to achieve the following objectives:

1- Saving time and effort.

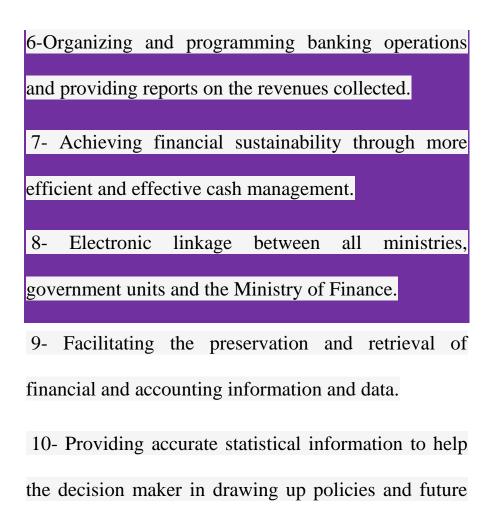
2- Ensuring accuracy, integrity and transparency throughout all stages of work.

3- Enhancing follow-up, control and financial accountability.

4- Commitment to the dates of issuing periodic reports.

5- Executing the state's general budget within the limits of the available appropriations and the determinants of providing cash.

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plans and taking appropriate executive decisions.

9- Benefits of applying the Government Financial Information Management System (GFMIS):

1- Increasing the ability of the central control

functions in the Ministry of Finance to monitor expenditures and revenues in ministries and government units.

2- The speed of access to information by decision makers and those responsible for financial and operational performance.

3- Increasing the internal control capacity of ministries and government units to prevent cases of potential and actual fraud.

4- Quick access to the government's monetary position information.

5- An increase in the ability to access information about economic performance.

6- Improving medium-term financial planning.

7- Increasing the ability to demonstrate accountability to stakeholders such as donors.

10- Components of the Government Financial Information Management System:

The government financial information management system consists of two main components, namely the chart of accounts and the general ledger system, and several branches from them form the totality of this system, and it can be said that there is no GFMIS system without these two components.

Chart of Accounts (COA):

Accounts chart is the basis of the accounting and reporting system in the government and private sectors and serves as an essential tool to meet their business requirements. Recording and reporting financial data in the form of timely information requires keeping a time record of transactions and events that are measured in cash, classified and summarized in a useful format based on the needs of organizations is achieved with the help of chart of accounts. The chart of accounts is an organized and encrypted list of all individual accounts that are used to record transactions in the general ledger system. The chart of accounts provides a coding structure for classifying and recording related financial information within the financial management and reporting system. The coding structure must meet both legal and administrative requirements for budget management and financial reporting and comply with international

standards related to financial and statistical reporting for budget management purposes. The chart of accounts must also meet the requirements of planning, control, and reporting on budget allocations or appropriations, as well as the needs of internal management, cost centers and the needs of central departments.

The current chart of accounts (the third chart), which is currently used in the operation of the government financial information management information system in Egypt, was designed after it was ensured that this chart will meet all the needs and requirements of the Egyptian Ministry of Finance at the level of all stages of the project.

The general ledger system and its complementary systems:

1-General Ledger "GL"

This system is one of the most important financial Oracle systems, it includes all total accounts, which in turn constitute the financial statements. In addition to the steps within the budget of the preparation, ratifying , and disbursement of appropriations and transfers. This system cares to provide the accounting reports on both accrual and cash bases, and financial statements necessary for management to achieve control and freedom in decision-making. The importance of the general ledger system is that it is the central repository of the GFMIS system, as it supports all stages of the public financial management cycle and transfers to it all the outputs of other sub-systems in the form of accounting entries according to the basis of double entry. It can be said that the general ledger system is the heart and mind of the GFMIS system and other systems that integrate with it, including e-government payment and collection systems.

2-The system of preparing the general budget of the state:

They are the applications concerned with preparing the state's general budget draft, starting from the stage of entering the authority's opinion proposal and ending with the stage of issuing the budget linking law and transferring credits to the applications of the general ledger for implementation. The budget preparation system performs a number of functions, namely providing the possibility of entering the draft budget estimates and their amendments, the possibility of entering the draft budget for three future years, the possibility of determining expenditure ceilings, the possibility of maintaining the historical record of the stages of the draft budget estimates, the possibility of making budget transfers and supplementary appropriation, and the issuance of various reports. and provide a hierarchical structure for preparation, review and approval.

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3-Payments "AP" :
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The role of this system confined mainly to payments and expenses and suppliers . where handles bills for purchases and maintenance column and government cutbacks, contractors and projects and advances and all current expenditures (excluding salaries) and capital loans according to the cash and accrual bases. On the other hand, all the ministries payments.

4-Procurement "PO"

Generally, this system interested in the procurement cycle system and the validity of purchasing according to supplies requirement from ordering until the issuance of the purchase order and the cycle of purchase orders and purchase orders cycle falls under this system.

5-Payroll "salaries"

This system includes the calculation of the monthly salaries of employees and management bonuses and deductions for employees. The employees follow-up subscriptions and prepare the necessary reports to take administrative decisions.

6-Cash management "CM" :

This System specializes in managing government public cash and the movement's future liquidity includes management government accounts with the Central Bank and commercial banks Bank. funding zero bank accounts for ministries and budgetary entities and convert available cash in the commercial banks to Treasury single account and monitored through a bank settlement on the system.

7-Government inventory 'INV"

This system means that monitors all private assets by controlling the government storage mechanism electronically from the moment received until the disbursement on the departments and divisions. And what may require for inventories. As these assets are classified according to the best approved international standards.

8-Order Management "OM"

And used with both systems of inventory and purchases to convert internal purchase orders to issuance and booking.

9-Fixed assets "FA"

This system calculates the depreciation of assets monthly and forwarded to the general ledger system with additions and exclusions in addition to the redivision of assets.

11- Alternative Budgeting Systems:

From a review of thought and practical application in the field of budgeting, it is possible to identify the various alternatives to budget systems, among which one is expected to be confused. The following alternatives for development can be envisaged:

- Maintaining the current system of budgeting (appropriations budget).

- Developing some aspects related to the current budget system.

- Programs and performance budget system.

- Planning and programming budget system.

-Zero-base budget system.

- Multiple budget system.

12-The current state of the public budget: The state's general budget is prepared and implemented according to both the economic classification of the state's activities and the administrative classification of entities and units, according to the item budgeting method, which represents a detailed assessment of the state's resources and uses for the coming year based on actual figures for previous years, to be modified by any expected changes that have an impact on the budget figures for the next year, and it was approved by the legislative authority. Where expenditures of a single determined and homogeneous nature are regardless of the administration, government entities, or specific programs, and despite the presence of some advantages for such type of budgets, including the

ease of the central government control over public spending and its attempt to prevent misappropriation and unlawful disbursement, And the possibility of estimating the increases required for the new needs of the next fiscal year, and thus the ease of comparing the revenues and expenditures of a previous fiscal year with a future fiscal year. In simple words, the classification based on the type of expenditure does not clarify whether this appropriation achieved its goal or not, but there are some shortcomings in it, which are represented in the following:

- The inability to measure the performance of the executive entities, and the difficulty of measuring the efficiency of the various government units, as the oversight in them is limited to the accounting and legal aspects and does not go beyond that to achieve the goals or not.

-The difficulty of identifying work programs and projects that the government intends to undertake or their developments, as the items budget are limited to the distribution of financial appropriations to various government agencies, and then monitor them to determine their responsibility, without paying attention to the work that the government accomplishes.

- Preparing budget estimates on the basis of the actual average spending for a number of previous fiscal years, taking into account the actual spending for the previous fiscal year. These estimates do not reflect the actual desired spending needs or the time frame specified for them.

- In light of this type of budgets, oversight is limited to accounting control, which aims to ensure that the appropriations do not exceed those contained in the budget without paying attention to the goals and objectives of those appropriations.

- It does not include the necessary means to follow up the implementation of works and projects and their cost and the extent to which spending objectives are achieved, and there are no standards for performance measurement and analysis of costs and returns, and the various government entities work in isolation from each other, so the development targeted by the socioeconomic development plan is not achieved.

-The method of items budget obstructs the estimation of the total expenditure for most of the state's jobs and services, as it is not possible to know the size of the total expenditure on a single project in which multiple parties participate in its implementation, each of which has its own appropriations, which results in an increase in the estimates of public expenditure from year to year; This is a constant waste of resources.

In view of the difficulties experienced by the method of items budget, it was necessary to think about switching to another system that ensures the optimal use of the available community resources in order to achieve the effectiveness of public spending and achieve its objectives, through which the negatives of the existing system are avoided. With the development of the concept of the budget from being mere tables showing state expenditures and resources to a plan through which government decisions are drawn based on economic, social and political priorities that reflect the relationship between state finances and the economic and social situation in it.

13- Orientation towards implementing program and performance budget:

The State General Budget Law No. (87) for the year 2005, amending Law No. (53) for the year 1973, was issued regard taking serious steps towards

implementing the program and performance budget, and it was gradually applied in some entities; for this, Prime Minister Decree No. 1167 of 2019 regarding the budget of programs and performance was recently issued with the aim of facilitating and following up the implementation of the plans system and programs and performance budgets in accordance with the plans and budgets related to them.

The programs and performance budget concept:

It is one of the ways of preparing the countries budgets whose idea depends on the distribution of credits based on specific programs that have clear and specific goals with a time-limit and whose performance is measured by measurable performance indicators, with the aim of raising the efficiency and effectiveness of public spending by linking the allocated credits to the results to be achieved.

Programs can be defined as: the means of producing outputs or providing services and they are determined by the ministries to achieve strategic goals, and therefore the philosophy of the system depends on defining the goals of government activity, and then setting programs that achieve the goals, as well as setting up a mechanism that enables comparison between goals and results and to provide results that serve as a better base for decision-making, From the above, it is clear that the program and performance budget is only a means of classifying the state's general budget data to focus on government programs and not on what the government purchases of commodities and services; That is, it works to highlight a new function for the state, which is the function of performance control instead of focusing on the traditional financial control function, that is, it is a tool in the service of government administration.

This budget aims not only to control public money, but also to indicate the functions, activities and projects carried out by the government and to measure the government's efficiency in carrying out the work with the aim of raising the level of management, rationalizing public spending and eliminating waste.

Advantages of programs and Performance budget:

The application of programs and performance budget achieves several advantages, including:

- Giving an accurate picture of the size of government spending through a prior scientific determination of the work cost that will be implemented.

- Raising the performance efficiency of the financial and administrative control entities by adding new indicators for assessment and control.

-Coordinating government programs and activities to prevent duplication in them.

-Flexibility in distributing appropriations to tasks and activities according to their relative importance, leading to optimal use of resources.

-Raising the accounting system efficiency, increasing reliance on government performance costs data, and increasing the reliability of financial reports.

-Finding a better connection between short-term, medium-term and long-term plans.

- Establishing a documented and scientific database on all areas of current and past government performance, and increasing reliance on typical performance rates and achievement measures for similar works. -Translating the state's general policy and objectives into programs that address basic problems, in a clear and simplified way.

-Investigate and analyze the causes of deviations in the implementation of activity programs and in the performance rates associated with budget, as the deviations related to the quantity and quality of public services achieved, or related to the services variety, or related to the services cost, or related to the responsibility centers efficiency.

Objectives of developing the current budget system:

The development process must begin with the formulation of the desired goals, which are derived

from a conscious study of the needs of the concerned groups and entities of different political, social and economic classifications and their expectations from the developed system. The following is a list of the objectives that are expected to represent the needs of the groups and entities involved in the budget process:

-Better allocation of economic resources at the state level.

-Better allocation of economic resources at the unit level.

-Determining the optimal size for the quantity of commodities and services provided by government units.

-Determining the quality of goods and services

provided by government units.

-Sectorial distribution of economic resources.

-Continuity of providing the commodity or service in the future.

-Strengthening vertical and horizontal communications

in government units.

- Monitoring and evaluating performance in government units.

-Effective reporting of the government units activities.

14- How to read the state's general budget:

Budget is a financial document include all government

revenues and expenditures during the next fiscal year

and reflects the main guidance of the public policy for

the government. As defined by the General Budget

Law No. 53 for the year 1973 and amended by Law No. 87 For the year 2005, it is the annual financial program of the economic and social development plan set by the state in order to achieve multiple economic and social objectives. And the budget in general, known also as an estimate of future revenues and expenses during a coming period of time usually a year. In light of the government's efforts to strike a balance between revenues and expenditures without asking for loans, both lenders whether internal (inside Egypt), known as loans or internal debt, or from lenders outside of Egypt (foreign) which are known as debt or foreign loans, preparation of the state's general budget is at top of the development priority reform agenda, where it was decided to update the classification, in accordance with law no. 53 of 1973, in order to bring more transparency and simplicity and clarity on the state's budget, according to the applicable concepts and definitions and internationally agreed upon, according to a GFS 2001 which issued by the International Monetary Fund, instead of the traditional applicable classification, according to the provisions of Law no. 53 of 1973 on the state's budget before the modification.

The introduction of the new classification of the general budget of the state require a limited amendments to the State Budget law no. 53 for the year 1973, where was issued in this regard, law no. 87 of 2005 on the amendment of the classification of the

budget line with the international state's in classification in of economic, terms and administrative classification, and functional according to this classification, it has classified the uses of the state's general budget into eight chapters instead of four chapters that was in the past, with increasing details until the kind level, which helps to accurately estimate the budget allocations down to the lowest details of the expense and would help to further tighten control of legislative power to the various activities of the state, and to ensure simplicity of the financial analysis for the terms, paving the way to apply program based performance budgeting.

And the state's general budget is divided into two sides the first side known as "uses", which includes all aspects of the expenses of the State during the fiscal year, whether expenses are current (i.e. consumer) or capital expenditure (i.e. investment), in addition to states expenses for acquisition of financial assets and repay the loans that have already been received by installments. The second side of the general budget, known as "resources", which includes all the revenues from which the state receive to finance its activities and various expenses. this side includes all taxes, fees and grants from various entities and other achieved revenues as a result of the state's activity undertaken, in addition to the funds collected from the sales of assets and borrowing.

The new law enter new concepts for a deficit budget : -

1. Cash deficit: is the difference between expenses (The initial six chapters on the side of uses) and revenues (initial three chapters on the side of the resources), and this index reflects the ability of the available revenues from taxes, grants and other revenues to cover various activities, including investment spending.

2. Overall deficit: represents a cash deficit plus/minus the net acquisition of financial assets.
And calculates the net acquisition of financial assets is as follows: Net acquisition of financial assets =

(chapter seven in uses "acquisition of domestic and foreign financial assets" minus the contribution of the public treasury in the restructuring fund) -(chapter four in resources " lending proceeds and sales of financial assets" minus privatization proceeds.

The Overall deficit in the general budget financed through two sources which are:-

- Net borrowing : It is the difference between the fifth chapter on the side of the resources " borrowing and the issuance of securities other than shares," the eighth chapter on the side of uses "repay domestic and foreign loans." Net proceeds of privatization : It is the difference
 between privatization proceeds and the
 contribution of

the treasury to finance the restructuring fund.

The following table shows the deficit concepts in light of new classification for state's general budget :-

Deficit				
Revenues				
Tax	First chapter			
Grants	Second chapter			
Other revenues	Third chapter			
Expenditures				
Wages and compensation of employees	First chapter			
Purchase of goods and services	Second chapter			
Interest	Third chapter			
Subsidy, grants and social benefits	Forth chapter			
Other expenditures	Fifth chapter			
Purchase of non-financial assets(Investments)	Sixth chapter			

Cash deficit/surplus (difference between revenues and expenditures)				
Acquisition of financial assets				
Acquisition of domestic and foreign financial assets		Seventh chapter		
Borrowing proceed and sales of financial assets				
Dorrowing proceed and sales of finaller	ai assets			
Borrowing proceed and sales of financial assets		Forth chapter		
Net Acquisition of financial assets				
Overall deficit (cash deficit plus/minus the net acquisition of financial assets)				
Financing sources				
Borrowing		Fifth chapter		
Loans repayment				
Repay domestic and foreign loans		Eighth chapter		
Net borrowing				
Proceed of non-financial assets' sales (net privatization proceed)				
Overall deficit finance (net borrowing + net privatization proceed)				
Proceed of non-financial assets' sales (net privatization proceed)				

15- Electronic transformation as a tool for reforming the state's general budget:

As a result of the problems facing the preparation of the state's general budget in Egypt as a result of relying on the philosophy of clauses and the consequent problems in the current government accounting system, the following steps were taken:

1- Implementation of the GFMIS government financial information management automation system.

2- Creating and activating the TSA treasury Single account.

3- Implementation of the GPS electronic payment and collection system.

Questions&Exercises

First: The following is a statement of the uses and resources of the budget of the administrative body, local administration and service authorities in billion pounds:

description	administrative body	local administration	service authorities
Uses			
(1) Wages and compensation of employees	180	90	42
(2) purchase of goods and services	210	90	54
(3) Interest	90	45	21
(4) Subsidies, grants and social benefits	150	30	36
(5) Other expenses	27	18	15
(6) Purchase of non-financial assets (investments)	180	30	6
(7) Acquisition of domestic and foreign assets	30	9	6
(8) Domestic and foreign loans repayment	150	21	24
Resources			
(1)Tax	450	150	60
(2)Grants	105	30	15
(3) Other revenue	6	18	6
(4) Borrowing proceeds and financial assets sales	240	90	30
(5) Borrowing and issuance of financial securities rather than shares.	300	45	9

If you know that:

1- The securities issued to finance the budget deficit amounted to 204 billion distributed as follow: 120 administrative body, 30 local administrations, 54 service authorities.

2-The total borrowing and issued securities to finance investment in other sources amounted to 87 billion distributed, 54 administrative body, 9 local administrations, and 24 service authorities.

3-The total borrowings and securities issued to finance investment from foreign stocks amounted to 63 billion, distributed over 42 administrative body, 6 local administrations, and 15 service authorities.

Required: Prepare a table showing the state's general budget.

State general budget

	<u> </u>		
description	administrative body	local administration	service authorities
Uses			
1-expenditure			
Wages and compensation of employees	180	90	42
purchase of goods and services	210	90	54
Interest	90	45	21
Subsidies, grants and social benefits	150	30	36
Other expenses	27	18	15
Purchase of non-financial assets (investments)	180	30	6
2-Costs of acquiring financial assets			
Acquisition of domestic and foreign assets	30	9	6
3-repayment of the financing burden	150	21	24
Domestic and foreign loans repayment			
Total uses	1017	333	204
Resources			
1-revenues			
Tax	450	150	60
Grants	105	30	15
Other revenue	6	18	6
2- Acquisition of financial assets			
Borrowing proceeds and financial assets sales	240	90	30
Total revenue and proceeds from the acquisition of financial assets	801	288	111
Budget deficit = resources - uses	-216	-45	-93

Financing Sources			
Chapter (5) Borrowing and Issuance of Securities Other than Shares			
- Issuing securities to finance the budget deficit	120	30	54
-Borrowing and issued securities to finance investment in other sources	54	9	24
-Borrowing and issued securities to finance investment foreign shares	42	6	15
Total financing sources	216	45	93

Second: The following is a statement of the uses and resources of the administrative body, local administration and service authorities (in billions) uses: 104 wages and compensations of employees– 118 Purchase of goods and services – 52 Interests – 72 subsides, grants and social benefits– 20 Other expenses – 72 Purchase of non-financial assets – 15 Acquisition of domestic and foreign financial assets, including 2 Treasury contribution to the restructuring

fund – 65 loans repayment

resources: 220 taxes - 40 grants - 20 other revenues -120 borrowing proceeds and financial assets sales, of which 40 are privatization proceeds - 118 borrowing and issuance financial securities rather than shares.

Required : - determine cash and total deficits and budget results.

uses		resources	urces results		
Total expenditure	<mark>438</mark>	Total revenues	280	Cash deficit	<mark>-158</mark>
Acquisition of domestic and foreign financial assets, without Treasury contribution	13	borrowing proceeds and financial assets sales, without privatization proceeds	80	Net acquisition	67
Total expenditure and assets acquisition	451	Total revenues and borrowing proceeds	360		-91
Loans repayment	65	borrowing and issuance financial securities	118	Net borrowing	53
Treasury contribution to the restructuring fund	2	privatization proceeds	40	Net privatization	38
total	518	total	518	total	0

Third:

One of the government administrative units has developed estimates (financial appropriations) for wages distributed at the level of the first and second groups and some items and types affiliated to them according to the proposals for preparing the budget in the administrative unit (amounts in thousand pounds):

	2019/2020		nronosod a	mendments
Description	Cur.	Yr.	new	legal
	Assessment			
Group(1)wages				
<u>& allowances:</u>				
Item (1): Cash				
wages &				
allowances				
kind (1):				
permanent jobs	6000		800	200
kind (2):				
Temporary jobs	1500			100
kind (5):				
Bonuses	900		150	80
kind (6):				
quality	1200		100	120
allowances				
kind (7):				

Cash benefits	1000	50	
<u>Item (2):</u>			
Fringe benefits			
kind (1):	100	10	10
Meals costs kind (2):	100	10	12
kind (2): clothes costs	50		5
kind (3):	50		5
Staff medical	120	15	8
care costs			
kind (5):			
Other staff	50	5	
fringe benefits			
<u>Group (2):</u>			
insurance			
benefits			
<u>Item (1):</u>			
Actual social			
<u>contributions:</u>	000	100	20
Kind (1)Govern ment's share in	900	120	30
the insurance			
and pension			
funds			
Kind (2):	450	60	15
Government's			
share the			
reward system			
Item (2): Other			
insurance			
benefits:			
Kind (1):			

health insurance 120 16 4 After sending these proposals to the budget sector at the Ministry of Finance and the Central Agency for Organization and Administration, the study and discussion of the draft budget resulted in the following: 1-the ratification of all the legally supported amendments. 2-the ratification of the new proposals as follows: - Permanent jobs approved by 80%. - Temporary jobs approved by 40%. - Bonuses are approved by 50%.

- Quality allowances were approved by 60%.
- Fringe benefits have been approved by 20%.

Required: prepare a draft budget for the fiscal year 2020/2021.

Budget draft 2020/2021

	2019/2020	proposed			Prop	osals	
Description	Cur. Yr.		amendments			2020/2021	
-	Assessment	new	legal	total	proposed	Draft budget	
Group(1)wages						ouuget	
& allowances:							
Item (1): Cash							
wages &							
allowances							
kind (1):							
permanent jobs	6000	800	200	1000	7000	6960	
kind (2):							
Temporary jobs	1500		100	100	1600	1540	
kind (5):							
Bonuses	900	150	80	230	1130	1090	
kind (6):							
quality	1200	100	120	220	1420	1372	
allowances							
kind (7):							
Cash benefits	1000	50		50	1050	1050	
Total item (1)	10600	1100	500	1500	11200	12012	
<u>Item (2):</u>							
<u>Fringe benefits</u>							
kind (1):							
Meals costs	100	10	12	22	122	112.4	
kind (2):							
clothes costs	50		5	5	55	51	
kind (3):							
Staff medical	120	15	8	23	143	136.6	
care costs							
kind (5):	10	~		_	4.5	15	
Other staff	40	5		5	45	45	
fringe benefits							
Total item (2)	310	30	25	55	365	345	
Total group (1)	10910	1130	525	1655	12565	12357	

Group (2): insurance benefits Item (1): Actual social contributions: Kind(1)Govern ment's share in the insurance and pension funds Kind (2): Government's share the reward system	900 450	120 60	30 15	150 75	1050 525	1044 522
Item (2): Otherinsurancebenefits:Kind (1):health insuranceTotal group (2)Totalchapter(1)	120 1470 12380	16 196 1326	4 49 574	20 245 1900	140 1715 14280	139.2 1705. 2 14062 .2

Fourth:

The following are the estimates of uses and resources

for the preparation of the public budget (total picture)

for the fiscal year 2015/2016 (figures in billion

pounds):

description	Adminstrativ e bodies	Local adminstr ation	Serving authorit ies	2019/20 20 budget	2018/20 19 budget
Uses					
Ch(1)wages & compensation	160	80	60	300	280
		40	0	100	110
Ch(2)procurement of goods & service	80	40	8	128	112
Ch(3)interest	320	20	8	348	332
Ch(4)subsides, grants and social benefits	380	16	12	4.8	352
Ch(5)other expenditure	80	24	16	120	100
Ch(6)purchase of non- financial assets(investments)					
Gr(1)fixed assets	248	24	12	284	236
Gr(2)non produced assets	32	8	16	56	80
Gr(3)lump sum purchase of non financial assets	20	8	4	32	36
Gr(4)general reserves					
Ch(7)acquisition of financial assets					
Gr(1)acquisition of domestic	36	2	4	42	44
Gr(2)acquisition of foreign	16	2	4	22	16
Gr(3)treasury contribution in the fund of restructuring finance					
Gr(4)general reserves					
Ch(8)domestic & foreign loan repayment					
Gr(1)loans repayment &	380	2.8	4	386.8	360

amortization of domestic securities					
Gr(2)loans repayment & amortization of foreign securities	40	1.2	4	45.2	48
Gr(4)general reserve					
Resourses:					
Ch(1)taxes	740	3.2	2	745.2	704
Ch(2)grants	20	0.8	0.8	21.6	16
Ch(3)other non-tax revenues	240	20	1.2	261.2	220
Ch(4)receipts of lending &sales of financial assets					
Gr(1)domestic receipts	300	8	16	324	316
Gr(2)foreign receipts	48			48	32
Ch(5)borrowing &issuance of securities other than shares					
Gr(1)borrowing & issuance of domestic securities other than shares to finance the budget deficit	?	?	?	?	?
Gr(2) Borrowing and issuance of foreign securities to finance investments	80		40	120	100

If you know that the Ministry of Finance will cover the

budget deficit by borrowing and issuing local and foreign

securities.

Required: Preparing the budget of the public treasury for

the fiscal year 2019/2020, so that it shows the values of

the surplus or deficit and the sources of financing the

deficit.

The public budget 2019/2020 (in billion)

	,				
description	Adminstrativ e bodies	Local adminstrati on	Serving authoritie s	2019/ 2020 budge t	2018/ 2019 budg et
Revenues:					
Ch(1) taxes	740	3.2	2	745.2	704
Ch(1)grants	20	0.8	0.8	21.6	16
Ch(3)other non-tax revenues	240	20	1.2	261.2	220
Total revenues(1)	1000	24	4	1028	940
Uses:					
Ch(1)wages & compensation	160	80	60	300	280
Ch(2)procurement of goods& services	80	40	8	128	112
Ch(3) interest	320	20	8	348	332
Ch(4)subsidies, grants and social benefits	380	16	12	408	352
Ch(5)other expenditure	80	24	16	120	100
Ch(6)purchase of non- financial assets(investments)	300	40	32	372	352
Total expenditure(2)	1320	220	136	1676	1528
Cash deficit (3)=1-2	(320)	(196)	(132)	(648)	(588)
-Net acquisition of financial assets:					
Ch(4)receipts of lending &sales of financial assets(100				

without privatization					
proceeds)	348	8	16	372	348
Ch(7)acquisition of domestic &foreign financial assets(without the treasury contribution in the fund of restructuring finance)	52	4	8	64	60
= Net acquisition of financial assets(4)	296	4	8	308	288
Total deficit(5)=(3)+or-(4)	(24)	(192)	(124)	(340)	(300)
Financing sources:					
Ch(5) borrowing &issuance of securities other than shares					
Gr(1)borrowing & issuance of domestic securities other than shares to finance the budget deficit	364	196	92	652	608
Gr(2) Borrowing and issuance of foreign securities to finance investments	80		40	120	100
total Ch(5) borrowing &issuance of securities other than shares(6)	444	196	132	772	708
(-)deduct ch(8)domestic &foreign loans repayment(7)	420	4	8	432	408
Net borrowing &issuance of securities other than shares(8)=6-7	24	192	124	340	300
+net privatization proceeds(9)					
Financing sources=9+8	24	192	124	340	300

Chapter Four the Accounting System in the Governmental Units

Introduction:

Generally, the accounting system performs a basic and fundamental role in the planning and control of activities, as being an information system, in the institutions and enterprises, especially in the governmental units, in view of the mass of the volume of resources that are collected or spent by these units. Like any other system, the accounting system in the governmental units contains a group of elements that react with each other to achieve the objectives of the system.

Nevertheless, the elements of the accounting system differ in details according to the activity which

is served by this system. Hence, the details of the elements of the accounting system in the governmental units will differ from those in the business organisations, to coincide or cope up with and suit the characteristics of the governmental activity.

However, despite of the difference of the elements of the governmental accounting system from those of business organisations, these elements are the same in both sectors, and stand as being the following:

- A set of documents which support the financial operations.
- A set of accounting ledgers and books in addition to statistical ones.
- 3) Documentary and accounting cycles which indicate the steps concerned to the preparation of the

documents and entry in the registers, in addition to the preparation of the reports.

- 4) A set of financial reports.
- 5) A manual of the accounts which would help facilitate task of assessing and classifying these accounts.

The following discussion will deal with the most important elements of the governmental accounting system.

1- The Documents:

Documents are considered the only source of original entry into the accounting ledgers and registers. They provide the objective proof on which depends the authenticity of the operations registered in these ledgers and registers. They are also considered an important source of information and perform a control and supervisory role as to the operations of the unit.

The governmental units use many kinds of documents which are divided to documents of the original entry and complementary documents to confirm the involved operations. In the governmental accounting it could be distinguished between three kinds of documents:

- Documents related to expenditures and other payments.
- Documents related to revenues and other receivables.
- Documents related to control over stores.

A-Documents of Expenditures and other Payments: Documents of original entry concerning expenditures and other payments are considered of great importance in the governmental accounting system. They include two types of documents:

-The Disbursement Approval Form (استمارة اعتماد).

- The Settlement Voucher (إذن أو كشف التسوية).

The Disbursement Approval Form (استمارة اعتماد): (الصرف ٥٠ ع. ح.

This document is issued to pay the amounts charged to the items of the budget of the governmental units, whether the disbursement will take place in cash or by check (now the Electronic Payment Accounts are used). This form consists of four parts, each of which includes a set of information.

The Settlement Voucher (٦١ إستمارة أو كشف التسوية ٦١). (ع.ح.

This document is used together with the disbursement approval form as documents for the entry of the financial operations in the ledgers. The disbursement approval form is concerned with the entry of expenditures, whereas the settlement voucher is considered a document for the entry of the remaining governmental unit operations. It includes information such as the name of the administration, the number and date of the entry, the kind of account and the financial year involved, the signature of the accounting employees, etc.

B-Receivables Documents:

Receivable documents (مستندات التحصيل أو المقبوضات) contain the following documents in addition to the settlement voucher:

The lists (counterfoils) of the cash receivables (قسائم) المقبوضات النقدية ٢٣ ع. ح.

The counterfoils of the towns cashiers (قسائم متحصلات).

The check receipt confirmations.

The counterfoils of the collection of the lands funds (قسائم تحصيل أموال أطيان ٨٢ أموال مقررة) –direct taxes.

(حافظة توريد النقدية ٣٧ ع. ح.) Cash deliver vouchers #

The counterfoils related to the collection of the properties revenues and returns (قسائم تحصيل عوائد الأملاك) –direct taxes.

The delivery lists of the inward checks and postal orders (. كشوف تسليم الشيكات وحوالات البريد الواردة ٢٥ ع. ح.).

C- Stores Documents:

Tight control over the stores requires the necessity of the availability of a set of documents which govern the additions (إضافة), or the delivery (صرف أو سحب) or the return of items to and from the stores. Examples of such documents include:

- The delivery form of permanent or depreciated items (استمارة صرف أصناف مستديمة أو مستهلكة).
- Orders of adding of items (النون إضافة أصناف ١١٢ ع.).
- Items inventory minutes (ع.) محضر جرد أصناف ۱۲۱ ع.).

- List of deficit or surplus of items (کشف العجز والزیادة)
 ۲۲۲ ع. ح.
- Bill of cost form (.ح. ح.) Bill of cost form (.
- Local bid form (استمارة عطاء محلي ١٨٥ ع.ح.).

2- Books and Ledgers:

The accounting system in the governmental units requires two kinds of books and ledgers. They are the accounting books and the statistical books. They are briefly introduced as follows:

A- The Accounting Books:

The same as business organisations, the accounting books in the governmental units are kept according to the double entry system, whereas entry in these books takes place on the basis of documents involved. These books are divided into two sets or groups: the set of journals and the set of ledgers.

The Journals:

They are as below:

دفتر يومية) The Disbursement Forms Journal This accounting record is .(استمارات الصرف ٢٢٤ ع.ح. consecrated or devoted for the entry of the disbursement approval forms, using annual serial numbers according to the arrangement of the registration of the disbursement approval forms in the journal. The format of such journal is built on allocating a column for each kind of accounts or expenditures and the total of such columns is transferred to the settlement journal daily.

دفتر يومية التسويات ٢٢٤) The Settlements Journal .c.E). The entry in this journal is taken place by استمارات التسويات) means of the settlement vouchers .7.7 \Im). The format or the lining of such journal is exactly the same as the format of the disbursement forms journal. The debit and credit totals of columns of the journal of disbursement form are daily transferred to the settlements journal. In some cases, it is allowed to some governmental units to keep one register for the entry of the disbursements forms and the settlement forms. The daily summing ledger accounts is prepared on basis of the total columns of the settlement journal. The settlement vouchers are given monthly serial numbers on basis

of the arrangement of their entry into the settlements journals.

B-The Ledgers:

They are as below:

The Expenditures Account Ledgers (المصروفات). Naturally, this ledger contains one debit side, as expenditures have a debit nature. One ledger is devoted for each chapter of the public budget and each page is divided into columns according to the number of kinds included in each item.

The Revenues Account Ledgers (دفاتر حساب). This ledger contains one credit side, as revenues have a credit nature. Usually, one ledger is allocated for each chapter of the public budget

related to revenues and also one page is devoted to each item, which is, in turn, divided into columns according to the item' kinds.

دفاتر) The Debit Current Accounts Ledgers

الحسابات الجارية المدينة). Normally, such ledgers contain two sides: debit and credit. These ledgers includes a set of current accounts of the same nature, that start as debit accounts until they are repaid or settled with another kind of accounts. As usual, one ledger is devoted for each one of the kinds of debit current account such as: Permanent حساب جاري السلفة) Petty Cash Current Account المستديمة), Debit Amounts under Settlement Current Account (حساب جاري مبالغ مدينة تحت التسوية), etc.

دفاتر) The Credit Current Accounts Ledgers Similar to their previous ones, الحسابات الجارية الدائنة. these accounts include both debit and credit sides. They encompass a group of current accounts which originate as credit accounts till repaid or settled with another kind of accounts. As usual, one ledger is devoted for each one of the kinds of credit current account such as: credit Amounts under حساب جارى مبالغ دائنة) Settlement Current Account تحت التسوية) consecrated for the Tax Administration, to the Security and Pensions Authority (هيئة التأمين) و المعاشات) and to other governmental entities, etc. دفاتر) The General Current Accounts Ledgers Such set includes a. (الحسابات الجارية العامة أو المتنوعة variety of accounts such as: a. The Ledger of which (دفتر حساب الشيكات ٥٦ ع.ح.) which contains the checks withdrawn on the Central Bank. The credit side of this account, the checks which the unit draws to pay amounts due is shown. The debit side represents the checks for which advices are received from the Central Bank (إشعارات) confirming their disbursement. The balance of this account represents the checks which were drawn by unit and no advices received the for the disbursement of which. b. The Transfers Account which represents (دفتر حساب الحوالات ٤ م ع.ح.) disbursements made through the post office. c. The دفتر) Checks Account Under Collection Ledger This account includes the دساب الشيكات تحت التحصيل checks received for collection of revenues or any

other amounts due to the governmental unit. The received checks as collections by the governmental unit are entered on the debit side whereas the credit side represents the received advices which confirm the collection such checks. The balance represent the checks for which no collection advice has been received.

The Contra Accounts Ledgers (دفاتر الحسابات). These group includes: The Ledger of Account of Debts due to the Government (النظامية دفتر حساب) and its counterpart The Ledger of the Settlement of Claims Liabilities (دفتر).

The Overall Ledgers (دفاتر الحسابات الإجمالية). They are control accounts over the governmental units

sub-accounts. Examples of these accounts include: The Overall Ledger of the Credit Current Accounts (دفتر اجمالي الحسابات الجارية الدائنة) and The Overall Ledger of the Debit and Credit Contra Accounts (دفتر اجمالي الحسابات النظامية المدينة والدائنة).

D- The Statistical Books:

Statistical books are the second type of records rather than the accounting records. The objective behind the use of the statistical books is to achieve sound control over the governmental units operations. Examples of such books are:

The Commitment Book (دفتر الإرتباطات). The function of this book is to govern the units' disbursements from the amounts appropriated for them in the budget. Accordingly, the governmental unit should not exceed the amount determined in relation to each item or kind and it should not disburse on an irrelevant amount.

دفتر الحسبة) The Daily-Summed Calculation Book اليومية). It is known that the governmental accounting is based upon the double-entry system. Such a system will tend to the balance of the total debit amounts with the total of the credit amounts entered in the accounts. Such procedure is achieved by means of the preparation of the daily, monthly, annually trial balance. Accordingly, such or balances represent what is known as the book of the daily calculation. Similar to the trial balance, this book is broken down into two sides: debit side and credit one which are filled in with figures that in achieving the equality, as follows:

- **a.** The total of debit amounts which represent the expenditures, debit current accounts, debit contra accounts and the balance of cash at the end of the day should equal the total of credit amounts which represent the revenues, credit current accounts and credit contra accounts.
- b. In the absence of errors both in entries and in accounts, the two sides of the book will be balanced.
- **c.** In the case of the contrary, such position will be a proof of the existence of errors that call for an overall audit to discover these errors.

- d. The debit and credit amounts of the daily summed calculation book are taken from the totals of the settlement book as well as the balance of cash at the beginning and the end of day.
- e. All of the accounting operations must be approved by the Head of Accounts.

3- The Governmental Periodical Reports and the Final Account:

Similar to business organizations, financial reports in the governmental units represent the products of the accounting system. Nevertheless, the reports of the governmental units may have standardized formats contents and preparation time-limits. Such reports are usually submitted to the Ministry of Finance, the Accounting Central Agency and the Representatives' Council. The most important of which are the following:

- 1. The Approximate Monthly Financial Follow-up Account (كشف الحساب أو المتابعة الشهري التقريبي). This account includes the value of the expenditures and revenues recorded in the accounting books till the last day of the month, so it is submitted on the fourth day of the following month.
- 2. The Monthly Financial Account (کشف الحساب). It is prepared to portray the financial positions of the governmental units in a determined way. In addition to the balances of the other debit and credit accounts, it includes the cash (treasury) balance at the beginning and end of the

month. It is sent to the Ministry of Finance latest the tenth day of the following month.

- 3. The Quarterly Financial Account (الربع سنوي: استمارة ٥٧ ع.ح. - ٢٠٤ ٧٠ ع.ح.). This report is prepared every three months including the expenses and revenues items of this period, in addition to the balances of debit and credit current accounts. The account of the fourth quarter should include financial information of the preceding three quarters.
- كشف الحساب الختامي: استمارة ٧٥) 4. The Final Account

. \mathcal{C} . \mathcal{E}). At the end of the financial year, the governmental units prepare the final accounts to picture their actual expenditures and revenues, in addition to the surplus or deficit if any, compared

with what has been included in their budgets. It also includes the units rights and liabilities with the third parties at the end of the financial year. The final account should be attached by the following enclosures:

- *a.* An annual achievement report signed by the Head of the governmental unit. It contains the operations results of the current and investment budgets' goals, the implementation deviations and their causes if any, the suggestions for rectifications and their effect on the unit's final results.
- *b*. A statement of the investment utilisations showing what has been completed and its expenditures till year end concerning each project separately.

c. A copy of the monthly and quarterly financial accounts together with the achievement report and the statement of the investment utilisations which should be sent to the Accounting Central Agency.

4 -Accounting unit

It consist of (audit section – deletion section dossiers and archive section) the director of the accounting unit is a representative from the Ministry of Finance in all government agencies and he has the right to the second signature and the agency has the right to first signature and every entity carries an institutional code for it that is not repeated.

First: Government financial management information system GFMIS.

It is an alternative system for preparing the financial account of government revenues and expenditures, which is prepared at the end of each month, it is intended to automate the accounting units (recording, tabulation and reporting)through a system designed on Oracle programs linked to the Ministry of Finance directly on its servers through a networked communication device.

Prime Minister Decision No. 2374 was issued at 2017, which obligated the units of the administrative body, units of local governmental administrations, public service authorities, authorities that have special budgets and other units included in the state's general budget. and all authorities and entities with independent budgets that are listed as a single number in the state's general budget by implementation of the Government Financial Information Management System (GFMIS).

As part of the Ministry of Finance efforts towards the full implementation of the GFMIS system, the following has been approved:

-The approval of the Higher Committee for Mechanization in the Ministry of Finance on (8/8/2018) to limit the delivery of monthly financial account form (.استمارة $\circ \vee 3$. σ) for all accounting units on their legal dates, in electronic form, by printing it from the system, approving it and sending it to the final account departments in the financial directorates or to the final accounts sector of the Ministry of Finance.

- Adding the functions of extracting consolidated reports (quarterly financial account form- Economical source of financing (monthly report) to the function of the budget body in ministries and public service bodies, also the budget departments and the final departments (each within its jurisdiction) review and send the consolidated report at the level of all the accounting units of the budget body extracted from the (GFMIS) system to the competent departments in the final accounts sector of the Ministry of Finance after its approval and signature, after all its sub-accounting units send a monthly letter approved by the representative of the Ministry of Finance in the administrative authority stating that the data extracted through the (GFMIS) system matches the data recorded in the books and records of the subaccounting unit.

The specific dates for the financial follow-up reports after the completion of the (GFMIS) system:

- The central administration concerned with the final accounts sector provides monthly financial follow-up reports, including actual revenues and expenditures, as well as financial follow-up reports for the quarterly periods in accordance with the dates set by the Ministry of Finance from the month following the follow-up period (after the closing day on the (GFMIS) system) based on the actual data of final account form extracted from the (GFMIS) system, without prejudice to the system and the dates specified by the annual instructions for preparing the final accounts.

Among the most important reports extracted from the GFMIS system:

1-economic source of financing-bodies: report on the appropriations and actuals for the uses and resources of the accounting unit or budgetary bodies in accordance with the source of funding during a certain period in order to adjust the balances of the accounting units. Access to it, is only by the budgetary bodies the main units.

2- Financial account- units: A synthesis report of the uses, resources, assets, liabilities, debit and credit

accounts of the accounting unit with the balances of the beginning of the period, current operations and balances of the end of the period carried forward from the beginning of the fiscal year until a certain period. Access to it, is only by the budgetary bodies, the main units, the accounting units.

3- Financial account- bodies: A synthesis report of the uses, resources, assets, liabilities, debit and credit accounts of the budgetary bodies with the balances of the beginning of the period, current operations and balances of the end of the period carried forward from the beginning of the fiscal year until a certain period. Access to it, is only by the budgetary bodies, the main units

Second: the electronic payment and collection system

disbursement :Payment status is done with payment orders or settlement vouchers for transfer from one account to another account.

Revenue: Collection status is done through the collection channels available from banks and collection devices such as Fawry.

Its Advantages

1- Limiting money circulation (not exposing it to damage) which limit the issuance of new currencies.

2- Limit carrying large sums (reducing theft).

3- Not to delay in settling payments directly from the account of the Ministry of Finance.

4- Speed of adding proceeds to the account of the Ministry of Finance (unified Treasury account)

5-Ease of matching book balances through the unified treasury account.

6-Save check books printing costs.

7- Saving the costs of obtaining account statements and sending them by mail (which are obtained through the laptop).

6 -Accounting for the Governmental Transactions:

Similar to the businesses units, financial transactions performed by governmental units should be entered into their books according to the double entry system. However, the names or the denominations of such used accounts in these units differ from those used in businesses ones, to cope with the denominations indicated in the State's general budget. The method of entering the financial operations in the governmental units are reviewed in the following sections.

Recording the Current Expenses:

The governmental units pay their current expenditures by disbursement (payment) vouchers (٩ أذون الصرف . Such expenses are conducted as follows.

Law no. 139/2006 was promulgated to amend Governmental Accounting Law no. 127/1981. Accordingly, the Treasury Single Account (حساب) was established to include all of the accounts of the Ministry of Finance, the administrative body units, the local administrative units, public servicing and economic authorities and other parties that have accounts opened in the Central Bank of Egypt. There are some decrease and circulars issued in this regard (MOF bulletin no. 7/2007 and decrees no. 35/2009, no. 531/2010, and the circular book no. 21/2011. Accordingly the checks were replaced by the Electronic Payment System (replaced by the Electronic Payment System (EPS), According to the Electronic Payment System (EPS), the following journal entry is used to record the due current expenditures (in the governmental units which follow this system):

Current Expenditures (item)	XXX	
Current Credit Amounts under Settlement-		
Tax Administration a/c (deducted taxes)		XXX
Payment Orders-Sent a/c (net)-noDate		XXX

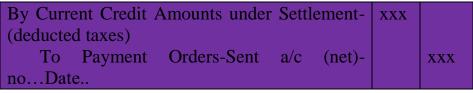
on the Financial Account (کشف الحساب-استمارة ۲۰ ع.ت.) printed from the consecrated *Lap Top* for the settlement of payment orders, the Payment Orders-

Upon paying the disbursements which are shown

Sent a/c is debited and the Central Accounting Unit a/c of the Treasury Single System (which replaced the Central Bank of Egypt a/c) is credited as follows:

Payment Orders-Sent a/c (net)-noDate	XXX	
Central Accounting Unit a/c of the Treasury		
Single System		XXX
The credit balance of the payment orde	ers acc	counts
on the Financial Account (ع.ح.) ماستمارة ٥٥	الحساب	(کشف
will represent the value of the sent payment orders by		
the governmental unit which are still du	ue (w	ithout
disbursement) and are not settled.		

Upon payment of deduction:



In event that the payment order is returned for any reason after it has been deducted and adding it again in the account statement of the central accounting units, until the necessary documents are completed to issue

the payment order again to the beneficiaries.

By Centr	al Account	ting Unit	a/c		XXX	
То	Current	Credit	Amounts	under		
Settleme	nt					XXX
The F	Entry of V	Vages:				

It is known that wages represent a high percentage of the expenditures of the governmental body, to the extent that the first chapter of the State's general budget's utilisations is confined to them. In the real world, prior to the disbursement (payment) of the monthly wages, a list containing the names of the personnel working in the service of the unit, the wages of each one of them, and the total of their wages is prepared. The net wages which the staff members receives will represent the difference between the total

dues of the staff member and the deductions imposed thereon.

Of course, the staff member's dues differ according to the job occupies and the allowances required by such a job. Also, the deductions vary from one staff member to another. The staff member's wages the basic wages, the nature-of-work represent allowance, the representation allowance, the infection (contagion) allowance, the university and scientific research allowance, the leadership allowance and others. The deductions include the staff member's share in security and pensions, taxes, the health care, the clubs subscriptions, the repayment installments of (نفقة الزوجة المطلقة) commodities purchased, alimonies ruled by law and others.

According the Electronic Payment System (EPS), the net salaries of the staff members is transferred electronically and each staff member gets its due salary by means of credit card given thereto. Using the Automatic Teller Machines (ATM) he/she can draw the salary at any time and required amount. Regarding the deductions retained by the governmental entity out of the salary of the staff member in favour of other entities, they are also transferred electronically.

On the application of the ATM system, concerning payments of the staff members of the governmental unit, an electronic payment order is issued. This order should be signed (first and second signature), using the electronic signature of the staff members' net salaries. The transaction must be adequately clarified in order to ease the review process when printing the financial account or list and settling the payment order, in addition to recording the deducted amount and adding it the Creditors Account.

The following journal entry shows how the staff members' monthly salaries are recorded:

Current Expenditures (Chapter One-Wages)	XXX	
Current Credit Amounts under Settlement		
(The Social Securities & Pensions Authority).		XXX
Current Credit Amounts under Settlement		
(Taxes Administration).		XXX
Current Credit Amounts under Settlement		
(Clubs and syndicates subscriptions).		XXX
Current Credit Amounts under Settlement		
(Legitimate expenditures).		XXX
Current Debit Amounts under Settlement		
(Staff loans).		XXX
Sundry Revenues a/c (Sanctions & penalties).		XXX
Payment Orders-Sent a/c (net)-noDate		XXX
Payment of Deductions:		

The governmental unit issues Electronic Payments Orders in favour of the entities or parties which have deductions. For example, the following journal entry of the Taxes Administration's deductions is done by preparing an Electronic Payment Order (settlement) deducted from the creditors accounts:

Current Credit Amounts Under Settlement a/c (Taxes Administration)xxxPayment Orders-Sent (Settlement) a/c no. datexxx
Upon paying the disbursements which are shown on
(كشف الحساب-استمارة ٢٥ ع.ح.) the Financial Account
printed from the consecrated Lap Top for the
settlement of payment orders, the Payment Orders-
Sent a/c is debited and the Central Accounting Unit a/c
of the Unified Treasury System (which replaced the
Central Bank of Egypt a/c) is credited as follows:

Payment Orders-Sent a/c	XXX	
(Payment Order noDate//2018)		
(Payment Order noDate//2018)		
(Payment Order noDate//2019)		
(Payment Order noDate//2019)		
Central Accounting Unit a/c of the Unified		
Treasury System		XXX

Illustration 1:

A governmental unit conducted the following financial operations, concerning chapter one of the general budget utilisations:

On July 20, 2019, the total wages, inclusive of the share of the State's in social securities and pensions, amounted to L.E.1,000,000. As for the deductions which must be calculated out from this amount, they were as follows:

*Securities and pensions (staff

member's share)	80,000
*Taxes	120,000
*Life insurance premiums or instalments	20,000
*Clubs' subscriptions	20,000
*Legitimate expenditures	40,000
*Sanctions and penalties	2,000
*Purchases instalments	18,000
*Loans and advances instalments	20,000

Instructions:

Prepare the journal entries which would indicate the debit and credit columns on the disbursement journal book and settlements forms, assuming that: (a) The unit follows the Electronic Payment System and ATM for paying to the staff members

Description	Dr. L.E.	Cr. L.E.
Current Expenditures a/c (Chapter One-Wages)	1000000	
Current Credit Amounts under Settlement		
(The Social Securities & Pensions Authority).		80000
Current Credit Amounts under Settlement		
(Taxes Administration).		120000
Current Credit Amounts under Settlement		
(Clubs and life insurance subscriptions).		40000
Current Credit Amounts under Settlement		
(Legitimate expenditures).		40000
Current Credit Amounts under Settlement		
(Purchases instalments)		18000
Current Debit Amounts under Settlement		
(Staff loans).		20000
Sundry Revenues a/c (Sanctions & penalties).		2000
Sent Payment Orders a/c (net) no 22, Date 20/7		680000
Current Credit Amounts under Settlement		
(The Social Securities & Pensions Authority).	80000	
Current Credit Amounts under Settlement		
(Taxes Administration).	120000	

Solution

Current Credit Amounts under Settlement		
(Clubs and life insurance subscriptions).	40000	
Current Credit Amounts under Settlement		
(Legitimate expenditures).	40000	
Current Credit Amounts under Settlement		
(Purchases instalments)	18000	
Sent Payment Orders (Settlement) a/c no 23 date		298000
Issuing payment orders to settle deductions in		
favour of outside parties.		
Sent Payment Orders a/c	978000	
(Payment Order no. 22 Date 20/7/2019)		
(Payment Order no. 23 Date 30/7/2019)		
Central Accounting Unit a/c		978000
Printing the statement of Payment Orders and		
settling disbursed amounts.		

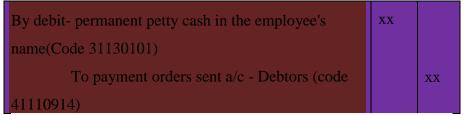
Permanent petty cash:

The governmental units resort to dealing in accordance with the permanent advances system to face petty expenditures, and also to face the amounts which require prompt payment, for it is a well-known fact that the governmental procedures related to payment are lengthy. The advance represents an amount which is disbursed to ascertain person, who would spend it on the aspects of expenditure determined in the resolution of the inception of the advance, after which he would be submitting the documents indicative of disbursement. The amount of the petty cash is considered as a trust-charge with the person to whom it was paid, and which he would retrieve whenever it would be on the brink of termination. The advance is also closed and terminated at the end of each financial year, after which it would be re-instated with the beginning of the new year. Furthermore, the petty cash may be increased until it would fulfill the purpose for which it was initiated.

The initiation of the fund:

By the initiation of the fund, it is meant the disbursement of its amount to the employee who will be empowered expenditure thereform.

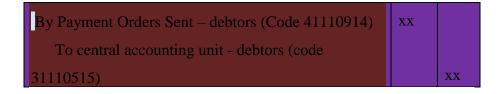
A-That is done by a means of a payment order by postal or bank transfer, and it is not made on the employee's government card: (Taking into account writing the full name of the beneficiary as mentioned in the national number - and not including any other words inside the name field other than the name only)



(B) When printing the weekly or monthly statement of

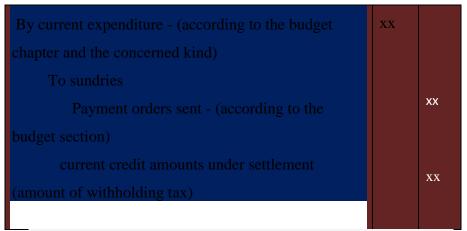
account through the system and settling the payment

order:



2- Retrieving the amounts disbursed from the permanent advance:

The Accounts Department reviews the documents of replacing the permanent advance, and after verifying its validity, a payment order is made for the value involved, with the amount which was in trust-charge of the employee returning to its origin:



3-In the case of transferring the permanent petty cash

from one person to another:

The petty cash may be transferred from one employee to another through notifying the Accounts Department immediately in order to initiate the transfer of the advance in its books with a settlement voucher in the name of the new employee in accordance with the declaration signed by him.

By debit- permanent petty cash in the new employee's name (Code 31130101)	xx	
To debit- permanent petty cash in the old		
employee's name(Code 31130101)		XX

4- Changing the value of the permanent advance:

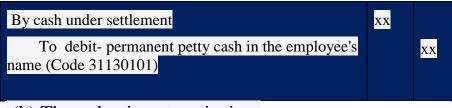
The amount of the permanent advance is determined after the lapse of six months from the date of its disbursement, so that it does not exceed the average monthly disbursed of it in this period plus (50%). with the increase, if any, to be transferred to the treasury and notify its competent responsible of that.

There are two cases for changing the value of the permanent advance as follows:

The first case: the case of reducing the value of the permanent advance:

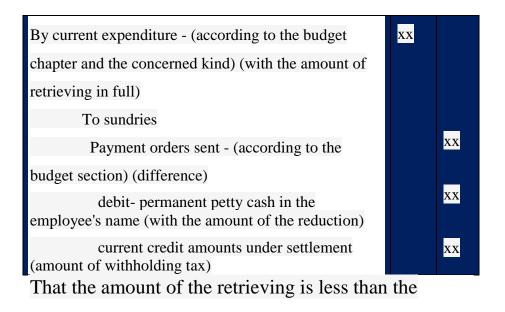
Care must be taken in determining the value of the permanent advance in order to reduce it to the minimum limit possible.

(a) The reduction before the retrieving and whenrefunding the value of the reduction the followingentry shall be made:



(b) The reduction at retrieving:

That the amount of the retrieving is greater than the amount of the reduction: The following accounting entry shall be made:



amount of the reduction: the difference is returned in

the treasury of the entity, and a payment order for the

value of the retrieving is not made.

A-		
By current expenditure - (according to the budget	XX	
chapter and the concerned kind) (with the retrieving		
value)		
To sundries		
debit- permanent petty cash in the		XX
employee's name (with apart of the reduction value)		
current credit amounts under settlement		XX
(amount of withholding tax)		
B-		
By cash under settlement (by the difference)	xx	
To debit- permanent petty cash in the employee's name (with the residual value of the reduction amount)		XX

The second case: the case of increasing the value of

the permanent advance:

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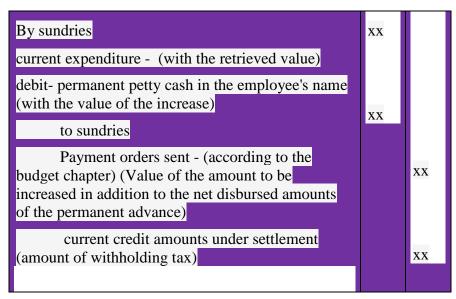
If the average monthly disbursement increases after six months from the date of disbursement of the advance with an addition of (50%) to the value of the licensed permanent advance, and there is an urgent need to increase its value, another license must be obtained with the required increase from the head of the entity and it shall be disbursed according to the case and the following accounting entries shall be made:

(a) That the increase is before the retrieving date:

By debit- permanent petty cash in the employee's name (increase value) (Code 31130101)	xx	
To Payment Orders Sent –debtors(Code 41110914)		xx

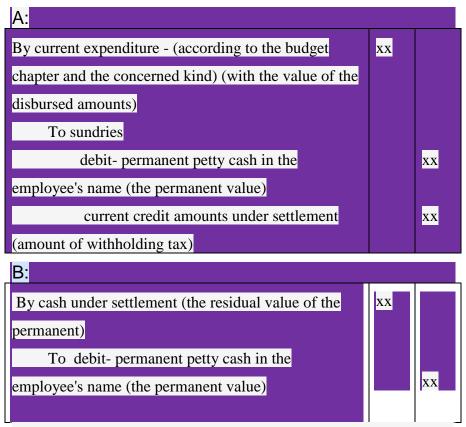
(b) That the increase takes place when the permanent

advance is retrieved:



5-If the permanent advance is closed at the end of the year or its purpose is ended up:

The remaining amounts without disbursement from the permanent advances are returned at the end of each financial year so that the balances of accounts are closed at the end of it. Provided that the permanent advances are automatically renewed at the beginning of the next fiscal year without the need for a new license, and current expenditure charged are according to the chapter and the concerned kind; The value of the amounts disbursed from the permanent advance from the date of the last retrieving until the end of the fiscal year, and the following accounting entries are made:



The necessary transfers must be made in all cases of retrieving, increase, decrease and refund of the remaining permanent advance between the accounts of the central accounting unit to ensure that the book balances from (the records and the (GFMIS system)) match the bank balances (from the financial position and the account statement of the central accounting

unit). and the following accounting entry is made :

By central accounting unit- debtors (code 31110515) To central accounting unit (according to the account concerned) xx

Temporary petty cash/advances:

The governmental expenditures operations through
several procedures which may not be tolerated by
some disbursement cases. Therefore, a temporary petty
cash may be disbursed to an employee, so that he
would use it to spend sums therefrom in order to
purchase items, or implement works for the unit, after
which he would have to submit the documents
evidencing the purchase, or the implementation of the
works. The amounts of the temporary or provisional
petty cash are lodged immediately upon disbursement

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to the employee under the expenditures account which

may suggest the accomplishment of the disbursement

process.

Therefore, a contra-entry must be initiated in order to

follow up the implementation of the petty cash subject

to its deletion and cancellation when the employee will

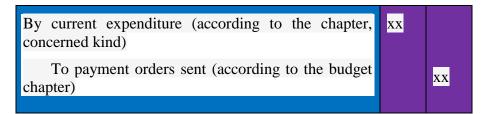
have submitted the documents related to the settlement

of the petty cash. Accordingly, the entries related to

this account are to take place as follow:

When disbursing the petty cash to the competent

employee:



- a contra account to control and monitor the advance:

By amounts disbursed as a temporary petty cash to the employeea/c	xx	
To works and purchases for which a temporary petty cash was disbursed a/c		xx

2- When works or purchases are done within the legal period and submitting completed advance settlement documents, the following accounting entries are made according to the different cases to settle the value of the temporary advance, which are as follows:

The first case: the temporary advance amount has been completely used: In this case, the accounting treatment is limited to canceling the entry and recording the amounts due as deductions (taxes, stamps, etc.), and the following accounting entries are made:

A:		
By works and purchases for which a temporary petty cash was disbursed a/c	XX	
To amounts disbursed as a temporary petty cash to the employee a/c		XX

B:

By cash under settlement a/c	XX	
To current credit amounts under settlement (with the amount of tax withheld)		xx

The second case: The value of the temporary advance

is not fully disbursed and the residual of it is returned

to the treasury:

A: an accounting entry is made to record the refund of

remaining cash and to cancel the original entry.

By works and purchases for which a temporary petty cash was disbursed a/c	XX	
To amounts disbursed as a temporary petty cash to the employee a/c		xx

D.		
By cash under settlement	xx	
To sundries		
Current expenditure - according to the chapter, concerned kind)		XX
current credit amounts under settlement (with the amount of tax withheld)		xx

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The third case: the operation is carried out after the legal period:

In this case, the person in whose custody the temporary advance, who is late in submitting the disbursement documents, must refund the remainder of the advance, if any, as well as the deductions that must be paid for the work of the temporary advance; as well as paying a delay amounts, if any, on the basis of the lending rate announced by the Central Bank of Egypt; This is for the period starting from the day following the date on which the period specified for the temporary advance ends until the day on which settlement documents of the advance are submitted to the Accounting Unit, with the necessary investigation carried out to ascertain the reasons for the delay and the responsibility of the person in charge of the temporary advance.

refund of the delay amounts and the remainder of the advance and cancellation of the entry:

By works and purchases for which a temporary petty cash was disbursed a/c	xx	
To the amounts disbursed as a temporary petty cash to the employee a/c		XX

In additions to the following entry:

By cash under settlement	xx	
To sundries		xx
Fines proceeds (in value for the delay)		xx
Current expenditure - according to the chapter, concerned kind)		XX
current credit amounts under settlement (with the amount of tax withheld)		

Fourth case: Increasing the value of the advance previously authorized by a maximum of 20%:

In this case, the value of the previously authorized

advance may be increased by a maximum of 20% in order to meet emergency expenses, and for the same purpose for which the advance was disbursed. And if it is not achieved within the prescribed period, he must state the reasons that prevented this, provided that he supports what he said with the necessary documents to prove its validity. The following accounting entry is made to prove the disbursement of the excess amount:

By sundries		
Current expenditure - according to the chapter, concerned kind)	xx	
amounts disbursed as a temporary petty cash to the employee a/c	xx	
To sundries		
Payment orders sent		XX
works and purchases for which a temporary petty cash was disbursed a/c		XX

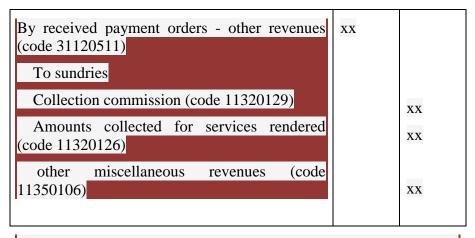
Amounts collected by entities (administrative

expenses - commissions...others):

1- When implementing the budget, each entity shall

abide by the following rules:

Proceeds from administrative expenses charged by the entity in return for performing a service for another entity shall be transferred revenues without deducting any amounts from them for any expenses whatsoever.



 When printing the account statement of the Central Accounting Unit – Revenues:

 By central accounting unit - other revenues (code 31110512)

 To received payment orders - other revenues (code 31120511)

Recording the Current Revenues:

Electronic collection instructions according to the decisions of the Minister of Finance Nos. 269 and 760 of 2018.

In light of the issuance of the Minister of Finance's Decisions No. 269 and 760 of 2018 regarding the electronic collection of government dues, the Circular 142 of 2018 in the same regard, and the approval of the Supreme Mechanization Committee at the Ministry of Finance, In light of the development of electronic collection mechanisms and means that are consistent with the developments of the stage, the Ministry of Finance has made available many interim collection methods through which governmental collections are implemented,

In this regard, the Accounts and Financial Directorates Sector المالية) issued the accounting procedures and treatments to use the available means which represented in the following:

First: Available electronic collection methods:

Collection through GPOS electronic collection machines with electronic cards: salary card - prepaid card - credit cards(current accounts and bank accounts except for the purchases debit card) for the following amounts:

- A- More than 500 pounds up to 9999 pounds.
- B Amounts less than 500 pounds (Voluntary).
- 2- Collection through a cash collection order by the bank (customer payment-مدفوعة مواطن):

For amounts of 10,000 pounds or more, by issuing a cash collection order from GPOS electronic collection machines, and paying the values through one of the banks participating in the GPS system.

3- Collection through the usual cashier payment-مدفوعة صراف for proceeds of 500 pounds or less:

They are collected and deposited by the cashier at one of the participating banks in the system, cashier payment (GPS.MOF).

Second: Adding proceeds in entities' accounts and accounting units:

The Receipts are added according to the following division:

1-Budgetary accounting units only: *** If the collection is by machine: The proceeds are directed to any of the revenue budget chapters(first third - fourth) creditors (in the central accounting unit). *** Collection through customer payment or cashier payment: the same as the previous method.

2- Budgetary units with special accounts:

*** If the collection is by machine: according to the directive on any of the revenue budget chapters (first - third - fourth) Creditors of budget proceeds. And directing on the creditors' account for receipts from private accounts that are not linked to the databases of the central accounting unit, and on private bank accounts linked to databases.

*** Collection through citizen payment or cashier payment :According to the directive on any of the revenue budget chapters (first - third - fourth) creditors of budget receipts. And directing on the creditors account for proceeds from the special accounts of the central accounting unit.

3-Special accounts units with a separate institutional code:

*** If the collection is by machine: directing on the creditors account for proceeds from special accounts not linked to the databases of the central accounting unit, and on private bank accounts linked to databases. *** Collection through customer payment or cashier payment: According to the directive on any of the revenue budget chapters (first - third - fourth) creditors of budget proceeds. And directing it to the creditors account for proceeds from the special accounts of the central accounting unit.

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4- economic bodies accounting units :
*** If the collection is done by machine: directing to
the authority's bank account.
*** Collection by customer payment or cashier
payment: directing to economic bodies in the central
accounting unit.

Third: The documentary cycle within the entities and accounting units:

******* Business cycle inside the collection point** (collectors or cashiers):

 1- Collection of amounts of 500 pounds or less and amounts greater than 500 pounds that dealers with the competent departments refuse to pay electronically inside the collection points (collection is made by a cashier payment) A-The collection is made in cash using counterfoils of cash receivables(ح ٣٣ ع ح) . Categories of these amounts of 500 pounds or less can be accepted through GPOS electronic collection machines in the event that the citizen wishes to pay by the electronic means. While following all the rules and procedures stipulated in the Financial Regulations for the Budget and Accounts upon cash collection, in accordance with the entity's maximum collection limit, and in accordance with the instructions contained in Circular No. 63 of 2017 in this regard.

B- Values whose owners refuse to pay by electronic means and are greater than 500 pounds, 5% administrative expenses are collected out of the total amount directed to Chapter Three, other miscellaneous revenues in the discharge statement-

- 2- Collection using cards on GPOS for values exceeding EGP 500 to EGP 9999:
- A- The customer goes to the competent department to pay the value of the service, fees, insurance, etc. using his card, and the agency determines the value to be paid and gives the customer a paper cash collection order and directs it to the collector or cashier.

B-The collector passes the card to the GPOS machine (cards with credit balances must be at the bank issuing the card and accept dealing on the national switch 123) and choose the appropriate budget chapter for the nature of the process according to the following cases:

- The collection point belongs to accounting unit (financing a budget deficit). The available chapters for this are chosen, which are the revenue budget chapters (first - third - fourth) - creditors.
- -The collection point belongs to accounting units (financing a budget deficit) with special funds accounts. A budget chapter is chosen according to the above for budgetary collections and the creditors account for special accounts.

-The collection point belongs to special funds accounts and has an independent institutional code. The creditors chapter is chosen.

- The collection point belongs to an economic body.
 The chapter of economic bodies is chosen. The addition will be in the economic authority's account at the central bank, knowing that the economic authority's account number does not appear to the machine user.
- C- After passing the card and determining the value on the machine based on cash collection order, and entering the password of the card for the citizen with his knowledge, two receipts are printed:
- -The first receipt: pertaining to the citizen with a "copy for the customer" written on it. Its data includes the deducted amount from the citizen's card, the machine number, the card number, and the type of

budget chapter. And the phrase "I agree to deduct the above amount from my card balance"

-The second receipt: for the office with a "copy for the office" written on it. Its data includes the deducted from the citizen's card, the machine amount number, the citizen's name in English (the citizen's data that appears on the receipt is the data available from the bank issued the card), the card number and the budget chapter. And the phrase "I agree to deduct the above amount from my card's balance," then the cardholder signs this copy, indicating that the transaction is correct and the collector keeps it.

D-The collector prepares a counterfoils of receivables (or receipts approved by the Ministry of Finance) in addition to the receipts issued by the <u>GPOS</u>

machine, where a counterfoil of receivable is written for the value of the process and given to the customer from a separate book of counterfoils of receivables and to be recorded on the counterfoil of receivable, that it was collected by GPOS machine. provided that among the receipt data is the machine number and the approval number printed on the POS receipt, provided that the collection of the amounts 500 pounds or less in another book to enable the cash placed in the bank to be tracked. E- At the end of the day, the cashier / collector prints a detailed report and a total report from the POS machine and matches the reports on the operations

that took place during the day with the receipts of the operations signed by the citizens and after confirming the correctness of the operations and that there are no incomplete receipts, the collector sends the portfolio through the machine. And by that, he finished his daily work on the machine in terms of making sure that there are no open or unsent portfolios.

Special cases and problems that may occur Upon collection with the machine:

- In case of missing receipts from the collector : the collector prints the missing receipt again as long as the portfolio has not been sent, and the receipt appears with the data of the transaction that took place and at the end of the receipt a duplicate notice appears to clarify that it is printed for the second time.

- -If the number of transactions is large per day: the collector can send more than one portfolio during the day, but the collector must make sure that the individual receipts (all collection receipts that were made during the day) are equal to the total reports each time before sending because it is not possible to print additional receipts. After sending the portfolios.
- All portfolios that are sent during the business day, whether they are sent once or multiple times, appear in the transactions report of the accounting unit and the statement account of the subaccounting unit in a combined form as a single total amount as long as the portfolios are sent before the midnight.

In the event that some transactions remain without being posted until the next day: the transactions that were not posted on the previous day will be included in the total transactions of the next day.

- -In the case of deducting lower amounts by mistake upon collection: If the amount collected by POS is less than the amount required to perform the service, the collector or cashier passes the customer's card again to collect the difference of the amount with the preparation of a single counterfoil of receivable, attached to it the two receipts issued by the machine.
- -In the case of deducting an amount greater than what is required for the performance of the service: If the amount collected through the collection

machine is more than necessary, the cashier / collector writes a counterfoil of receivable in the value he deducted in full, with the clarification of the differences required to be refunded by the counterfoil of receivable, accompanied by the receipt issued by the machine. And prepare a memo on the incident with the customer's data and the account to which the amount is requested to be returned On the same day that the error was made, and it is sent to the accounting unit to issue a payment order for the citizen, provided that the payment order is issued as soon as the payment form arrives at the accounting unit.

3- Collection by using electronic cash collection orders of 10,000 pounds or more:

- A- The citizen goes to one of the competent departments to pay the value of the service, fees, or insurance ... etc, and the agency determines the value to be paid and gives the citizen a paper cash collection order and directs it to the collector or cashier.
- B-The cashier or the collector enters the amount to be paid, the national number of the citizen, and a description of the nature of the revenue from the list on the screen of the pos machine and the budget chapter and wait for the exit of a receipt containing an indicative number and the national number of the customer.

payment from the machine, it can be created through the GPS system, provided that the cash collection order is printed and given to the customer and complete the procedures with the bank and the collector.

- C- Once the operation is completed on the pos machine, a cash collection order under implementation appears on the GPS screen at the entrance of the electronic payment.
- D- Citizen go to bank branches that deal with the electronic collection system, with the receipt.
- E The bank employee enters the indicative number from the receipt, a screen appears for the bank employee with all the transaction details.

- F The bank employee prints the bank receipt and gives it to the customer to sign it to make sure that the transaction is correct.
- G The bank employee prints another receipt and gives it to the citizen stating that the citizen has paid the required amount. The receipt received with the customer from the bank dealing with the system is considered a payment document.
- H- The customer go to the collection point again to hand over the original bank receipt and to receive the counterfoils of cash receivable, on which it is written that a customer payment from the same book prepared for POS machines from the collector indicating all the details of the payment, Provided that the receipt data includes the cash collection

order number to prove the customer's personal or legal right, and The addition of the customer's payments is shown in the transactions report on the account and the account statement of the central sub-accounting unit with the value of the payment made at the bank.

The discharge statement prepared by the cashier or collector for receipts using the cards and GPOS cash collection orders, its attachments will be:

- The counterfoils of cash receivable, that written on it were collected by the POS machine.
- Receipts issued by the electronic collection machines for the sums collected and signed by the citizen.

Total reports issued by the machine, provided that the collector keeps a copy of the detailed and total reports.

- The counterfoils of cash receivable on which are recorded were collected through the cash collection order.
- Original receipts received with the citizen from the bank.

Continuous recording of receipts (counterfoils of cash receivables) in the book ((233)), provided that in the debit side it shall be receipts of cash collected in the bank for values of 500 pounds or less and receipts(counterfoils of cash receivables) collected by electronic means from a POS machine or customer payment. On the credit side there is the

documents indicating the collection (the copy of the detailed and total reports and receipts indicating the customer payment and the cashier payment) and the daily signature of the accounts manager or his agent on the book ($c \in (c + c)$) to ensure the completion of the procedures.

**** The work cycle within the accounting units of whatever type (administrative / service / local / economic):

(1) Responsibility of the data entry of electronicpayment data in electronic collection:

- issuing and printing settlement reports for POS electronic collection machines from the URL available to them through an entry name and password for electronic collection, To issue reports at the level of each collection point (machine) or at the level of collection points of the unit and make them available to the auditor of cash under settlement.

- Make a cash collection order from the GPS system in cases of necessity and under the direction of the head of the agency after taking the opinion of the accounts manager.

(2) Responsibility of the auditor of cash under settlement in electronic collection:

- The time period for following up and issuing reports, transactions report and settling the amounts collected using the POS collection machines.
- The responsible auditor reviews the reports on a daily basis and follows up the reports of adjustments of successful transactions , which appear daily on

the next working day to transactions carried out on the POS machine only, using a URL that is provided to the accounting unit, making sure by the auditor that there are no open portfolios in the collection points of the accounting unit(which may be more than a collection point) through the report of open portfolios, , and in the event that there is any open portfolio, The collector is notified for the necessity to send the portfolio through an immediate telephone signal to him. As well as taking the necessary administrative procedures to emphasize non-laxity of the collector in sending the portfolios daily at the end of each working day.

The auditor prints the settlement reports for the successful transactions of each machine on a daily

basis and matches them with the discharge statement received (with the aforementioned attachments) from the collection points as each machine has its own number. An independent report can be printed for it with its total daily or monthly proceeds.

-Also, the auditors in the accounting units, Especially the units that have many collection points, must know the nature of the collection of each machine and the name of the collector who works on the machine and manually record that data on the settlement report when printed so that the proceeds can be separated if required.

-Settlement report for successful transactions, which is printed daily, showing the number of transactions

that took place on the POS machine, with a summary of the number of operations and the total of the machine proceeds at the end of the report ,where the summary of the report represents the total of the machine proceeds, which will appear in the transactions report of the accounting unit as well as a statement account of the sub-central accounting unit.

Accounting Treatments

A- Budgetary accounting units:

When printing the daily settlement reports for all machines belonging to the accounting unit and matching them with the discharge statements received from the collection points, including counterfoils of cash receivables- electronic receipts attached to the receipts issued from the pos machine And the receipts paid by the customer payment and the cashier payment that are credit on collections, the following entry is prepared:

By Cash under settlement (electronic collection) **xx** To the relevant account (creditors / revenues /) **xx** (With the conduct of bank transfers, if any (budget code 101010101))

Entry explanation:

- -Settlement of cash receipts via pos and electronic cash collection orders
- Successful transactions settlement Report from /
 2020 to / 2020 / Machine No. ()
- counterfoils of cash receivables receipts for the same

period (electronic cash collection)

That the settlement are made up-to-date.

After printing the weekly central accounting unit account statement, the following entry takes place:

By Central accounting unit (Chapter...) xx xx to cash under settlement (electronic collection) xx (budget code 101010101)

(closing the cash under settlement in the accounts of the accounting unit)

B- Budgetary units with special fund accounts:

The necessity to prove the receivables related to the funds' accounts, Based on a certified statement of detailed proceeds, According to what is recorded in the fund's accounts to prove it in the accounts of the budgetary unit. knowing the nature of the proceeds of each machine will help in the process of separating the proceeds easily, and the accounting treatment will be as follows:

In the books of the budgetary accounting unit (proof of the proceeds for special funds accounts)

By Cash under settlement (electronic collection) **xx** To credits under settlement xx (In the name of special fund accounts) Entry explanation:

- Proof of the proceeds of the special accounts or funds in the records of the budgetary accounting unit (budget code 101010101)
- With the necessity of having independent records to prove what is related to each account, whether there is one account for the fund or there are more than one fund that follows the budgetary accounting unit.

After printing the weekly central accounting unit account statements, the following entry takes place:

By Central accounting unit (creditors...) xx to cash under settlement (electronic collection) xx (budget code 101010101)

(closing the cash under settlement in the accounts of the accounting unit)

When making a settlement voucher to transfer the amounts due to the fund (A deduction from the central

accounting unit (creditors) and added to the central accounting unit - funds and special accounts) and printing the account statement of the accounting unit (creditors), the following is done:

The entry

By credits under settlement xx
(In the name of special fund accounts)
to Central accounting unit (creditors) xx
In the books of the Special Account or Fund:
Once the discharge statements and their attachments
are received, the following entry is prepared:
By the debit current amounts under settlement at the
budgetary accounting unit xx
To the relevant account (according to the
attachments) xx
Finance code (501010101)

The entry explanation

- Proof of the proceeds of the special accounts or

funds of the budgetary accounting unit.

- When adding the amounts due to the fund in the self-resources account-funds and special accountsand printing the account statement, the following is done:

by Central Accounting Unit - Special funds and accounts xx to the debit current amounts under settlement at the budgetary accounting unit xx Finance code (501010101) Entry explanation:

Closing the debited amounts at the budgetary accounting unit.

C-accounting unit of special accounts and funds with one fund or group of funds:

When printing settlement reports for the successful transactions of all machines belonging to the accounting unit and matching them with the discharge statements received from the collection points Including (counterfoils of cash receivables) receipts of electronic cash, attached with receipts issued by the POS machine And the customer and cashier payment receipts indicating the collection, the following entry is prepared:

By Cash under settlement (electronic collection) xx To the concerned account (according to the attachments) xx (Budget code 501010101)
When adding the amounts to the central
accounting unit(creditors) and after issuing the
account statement of the central accounting unit:

By central accounting unit (creditors) xx

to cash under settlement (electronic collection) xx (Budget code 501010101)

When a settlement voucher is made to transfer the

amounts from the central accounting unit account(creditors) To self-resources account of funds and special accounts and printing the statement of account for the accounting unit(creditors) the following is done:

The entry
By Central Accounting Unit - Special funds and accounts
XX
To central accounting unit (creditors) xx
Finance code (501010101)
With an emphasis on the following:

In the event of non-compliance with the payment of the government dues referred to in the decisions of the Minister of Finance No. 269 and 760 of 2018 regarding the electronic collection of government dues, the administrative expenses (10%) will be collected and transferred to - other miscellaneous revenues account (chapter ...).

At the end of the month, the percentage due to the Ministry of Finance is calculated and paid to the account of the central accounting unit through a disbursement approval form to disbursement of the due amounts to the Ministry of Finance, and sending a detailed statement of the percentage paid for each account to the central accounting unit, and the entry will be as follows:

By expenditure chapter Transfer 21510304 xxx To payment orders chapter xxx
The Ministry of Finance stresses that all the
representatives in the authorities addressing it ,must
pay the Ministry of Finance's share of special accounts
and funds within their legal dates. Those responsible
for delaying payment shall bear the consequences of
delay, and the Ministry will deduct the public treasury
dues through it in this case.

D- An economic entity's accounting unit:

It is following the same work procedures that are in the budgetary accounting units, Knowing that the collection processes that take place using the customer's card on the pos machines are added directly to the authority's account at the central bank And proceeds that are made by creating cash collecting orders from either pos machines or accounting unit laptop, The addition takes place in the authority's account in the central accounting unit - economic bodies - and the accounting entries are in accordance with what is known in the unified accounting system.

Illustration	: prepare (the re	quired	jou	rnal	entrie	es	to
record the following operations.								
(1) The a	ccounting	unit	receiv	ed	the	discl	nar	ge
statement, a	Ŭ							<u> </u>
receivables	receipts,	amo	unting	to	60,	000	L.	E,

representing revenues for the accounting unit, and the accounting unit printed financial reports from its GPS system.

By cash under settlement(electronic collection)	60000				
To revenues		60000			
By central accounting unit(revenues)	60000				
to cash under settlement(electronic		60000			
collection)					
(2) Assuming that the amounts collected in No. (1)					
Represent dues on the budgetary unit:					

By cash under settlement(electronic collection) To current credits amounts under	60000	60000
settlement		
(the name of the entity)		
By central accounting unit(creditors)	60000	
to cash under settlement(electronic		60000
collection)		
(3) Assuming that the amounts colle	cted in	No. (1)
related to special funds and a	accounts	(code
501010101)		

By cash under settlement(electronic collection) To concerned account(revenues- creditors)	60000	60000
By central accounting unit-special funds and accounts	60000	
To cash under settlement(electronic		60000
collection)		
(4): The accounting unit received	the disc	harging
statements and their attachmen	ts con	ıfirming

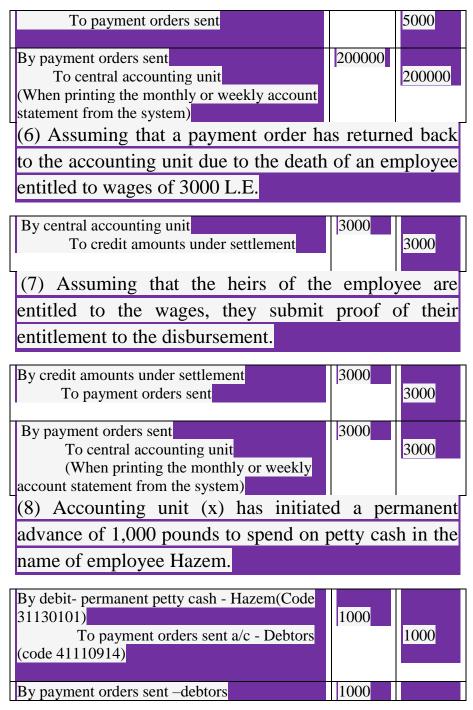
collections of 100,000 L.E for one of the special funds (Training and Development Fund) that belongs to the unit.

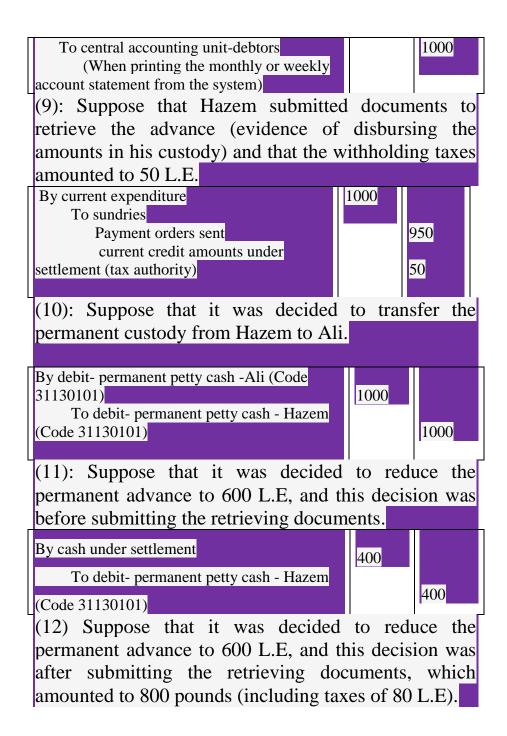
In the books of the budgetary accounting unit:

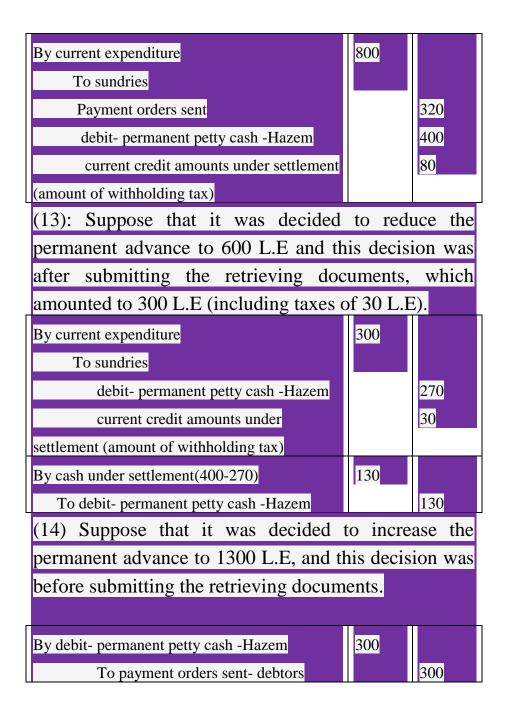
By cash under settlement(electronic collection) To credits under settlement(Training and Development Fund)		100000
By central accounting unit- (creditors) to cash under settlement(electronic collection)	100000	100000
In the books of the special fund or according	ount:	100000

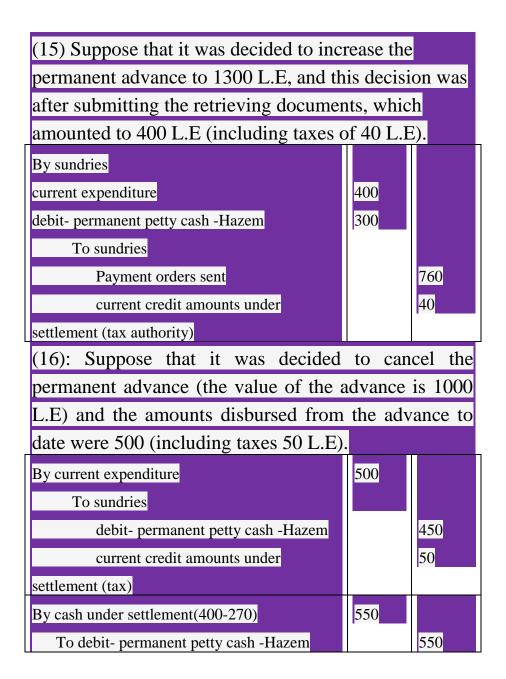
By debit current amounts under settlement at the budgetary accounting unit To Training and Development Fund	100000	100000
By central accounting unit- special funds and accounts To debit current amounts under settlement at the budgetary accounting unit	100000	100000
 (5): Wages and salaries - current experimentation (x) amounted to 200,000 L.E, including insurance, pensions, and income taxes, L.E, wages and deductions were paid. 	g deduct	ions for

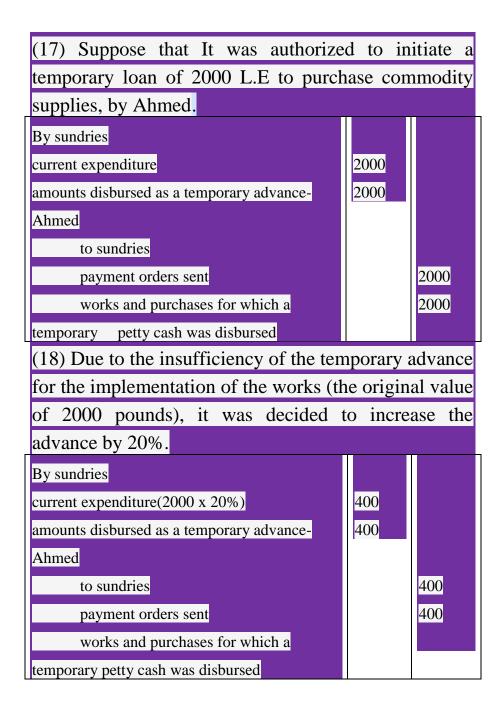
By current expenditure(chapter one)	200000	
To sundries		
Current credit amounts under		5000
settlement- (deductions)		
Payment orders sent		195000
By Current credit amounts under settlement-	5000	
(deductions)		











(19)suppose that the accounting	unit ha	ve the
following revenues, Proceeds of 1	000 L.I	E as a
collection commission, 2000 L.E in ret	urn for s	ervices,
penalties and fines for cash payme	ent outs	ide the
electronic collection system, 3000 L.E.		
By payment orders received - other revenues	6000	
To sundries		
Collection commission		1000
Amounts collected for services rendered		2000
other miscellaneous revenues		3000
By central accounting unit - other revenues	6000	
To payment orders received - other		6000
revenues		

Part Two National Accounting

Chapter Five The Nature of National Accounting

1- What is the National Accounting?

The complication and the development of the economic activity made that it is impossible for the economic decisions maker to provide information about the economic activity of one sector, of which consists the economy, or to obtain data about a certain industry. Such circumstances have created the necessity for a mechanism or an instrument to provide such requisites. In the light of the growth of the State's role in the operation of economic activity, the importance of such instrument has increased and such instrument has been found in national accounting.

Accordingly, the national accounting is defined as being "a set of principles and bases which govern the assemblage, the classification, the summarization and the presentation of the economic activity's results of the sectors of the national economy, with the objective of providing the required information". Hence, from the above definition, the most important functions of national accounting could be summarised as follows:

First: The Recording Function: This function represents the first feature of any accounting system. So, such function is interested in providing full information which is adequately originated about the economic activity of the society such as the consumption, saving, investment, import, export, borrowing and lending. Of course, this function is considered the corner stone for conducting the other functions of accounting, in addition to its importance

in providing a historical record of the economic activity.

Second: The Analytical Function: This function aims of providing information and details of the economic activity to identify the relationships between the sectors of the economy, and then between them and the outside world, in order to know the extent of their strengths or their weaknesses. Such information and details help studying the balance between supply and demand, studying the balance between saving and investment and studying the balance between the proceeds and utilisations of foreign exchange.

Third: The Predictive Function: This function depends upon the study and analysis of the past and current information to discover the prospective events.

This function provides a picture of what the economic policies could show in the future. The expectations of economic changes regarding private and public consumption, savings, investments, exports, imports, and the servicing of debts help knowing of the effect of that on the fundamental balances in national economy such as the inflation, deflation, or deficit in the balance of payments.

2- The Main Objectives of the National Accounting:

Similar to other branches of accounting, the objectives of the national accounting could be as follows:

1- The measurement and presenting of the results of national activities within the State during a certain period of time.

- 2- Determining the national wealth of the State on a determined date, by means of preparing the State's general public.
- 3- Tracing and presenting of the overlapping relationships between the economic sectors, with the aim of planning for development of a certain sector. For example, the development of the Agricultural Sector depends upon the extent to which some of the outputs of the industrial sector would be made available such as with fertilizers and agricultural tractors.
- 4- Providing the predictive information required for planning purposes and for decision-making processes. The effect of the economic polices on

such information should be taken into consideration prior to proceeding with such plans and decisions.

5- Providing comparative information between the financial periods the States. This would help identify the trend of economic performance in the State, such as comparing between the income of the individual and his/her productivity throughout and over the time periods, or with their counterparts in the other States.

3- The Concepts of National Accounting:

The Economic Operations (Transactions):

The measurement and delivery of economic operations depend on the method of completing these operations. Accordingly, the economic operations are divided into the following: First: According to the way in which these operations are done. Following this approach, operations can be divided into:

- *a*) **Monetary operations** which mean exchanging of commodities and services against cash amounts.
- b) Exchange operations which mean the barter (المقايضة) operations affected outside the circle of market transacting, such as the payment of wages by means of part of the production or the exchange of products without fixing market values for them.
- c) Figurative operations (محتسبة أو مجازية أو محتسبة) such operations do not take the form of a monetary or in-kind exchange. They are operations which are undertaken within the same accounting unit such as the owners salaries against

management, the rental value of owned buildings, and the interest on invested capital.

Second: According to the economic functions on the national level. Following this approach, operations can be divided into:

- *a.* **Production operations** which result in new benefits or the increase of outstanding (existing) benefits.
- **b.** Consumption operations that satisfy the citizens' needs.
- *c*. **Investment operations** which create the capital structure of the society.

Third: According to the nature of the economic operations. The economic operations, in terms of their nature, are divided into:

- (*a*)**Current operations** that are related to the current activity during the financial period.
- (b)Capital operations which are conducted over a number of financial periods.

Fourth: According to their participation in the creation of the national product, operations can be divided into:

- *A.* **Income operations** which represent the returns of production factors, such as wages, rent, interest, and profits.
- **B.** Transfer operations which express payments that are not accompanied by a benefit or a service in a direct form. They represent financial transfers from one unit to another, such as donations, subsidies and pensions.

Fifth: According to the requirements part of the **national accounting**, operations can also be divided into *final operations* which result in final commodities and services emerging of the production circle to the consumers, and *intermediary operations* that involving the commodities and services which enter into production.

The Concept of National Product (NP):

The national product (الناتج القومي) represents the market value of the final commodities and services produced in the State during a given financial period as a result of the reaction of the production factors. When measuring the national product, the natural and inherited resources and resources granted by international entities are not included in the national product, as they do not result from the reaction of production factors, but the represent a national wealth, such as the water of the rivers and the legacies.

On measuring the national product, its is important to differentiate between the commodity flow that represents part of the national product, and the commodity stock which represents a national wealth. The monetary or cash measurement is considered the most appropriate basis for the computation of the national product value since it works for aggregating a large number of commodities and services final outputs according to their monetary values.

On the other hand, the measurement of the national product faces some problems, the most important of them are: A. The figurative transactions: Some of the final production of commodities and services is not exchanged on the market. Part of these commodities and services goes directly to consumption without an exchange on the market, such as the direct consumption of the corps produced by the farmers and the services rendered by the family members, especially the work of the housewives. Such transactions represent an important part of the national product. In spite of the difficulty of measuring some figurative transactions, reasonable solutions have been provided such as pricing them at the same price of their counterparts handled on the market.

- B. The treatment of services: Final services should be considered when measuring national product. Services of health and education provided by the governmental units for the citizens for free should be evaluated on basis of the price of the same ones and should be considered when measuring national product, like commodities.
- *C.* The range of the national product: The locally produced commodities and services represent the local national product. Nevertheless, they may be the product of the reaction of national and foreign production factors. On the other hand, incomes may be received by, and transferred to, citizens from abroad against their contribution to the foreign national product. Therefore, the local national

product is calculated by adding the inflows coming from the external world and deducting the outflows going to the external world.

There are a variety of concepts that could be used for expressing the national product, the most important of them are:

I. Gross National Product (GNP): Gross national product (اجمالى الناتج القومي) takes into consideration what was produced in an economy during a specific period, whether tangible or intangible productions that satisfy individuals' needs. Such concept includes all commodities produced, with the inclusion of the amount of commodities consumed by the producers of that commodities and the exclusion of all available natural resources to the society, together with any foreign financial support and subsidy.

2. Net National Product (NNP): Net national product (صافي الناتج القومي) is the gross national product after deducting the fixed assets depreciation:

NNP = GNP - Depreciation

3. Local Product (LP): Local product (liuities and includes the value of final commodities and services produced inside the country, regardless of the factors of production, whether those factors are of local citizens or of foreigners living inside the country. Accordingly, the fundamental difference between national product and local or domestic

product is the production conducted by individuals living abroad. Therefore:

LP = Gross production by individuals living inside the country.

NP = LP + Production of the Egyptians living abroad - Production of the foreigners living in Egypt.

4. Net National Product at Factors Cost: There is a difference between the evaluation of the net national product according to the market prices and the evaluation of the net national product according to the product according to the product of the net national product according to the production factors costs. Therefore:

National Product at Production Factors Costs = National Product at Market Price - (indirect taxes production subsidies) National Product at Production Factors Costs = Wages + Interests + Rent + Profits.

National product can be measured according to one of the following methods, as follows:

First: The Final Product Method:

According to the final product (الناتيج النهائي) method, the final product is measured by the value of the commodities and services which are produced during the current period and sold to individuals who consume or save them during the same period and the sale value of the increase in the stock at the end of the period. The final consumption is meant the commodities which are purchased by individuals or by the governmental units, or which are using them up. The value of goods and services which are used as intermediate products are not considered when measuring the national product according to this method

Example 1:

The following date relate to one of the national economic sectors which consists of three economic entities: A that sells its production to B which sells its production to C Which in turn sells its production to the final consumers (amounts in L.E. millions):

Description	Α	B	С
Sales	10000	20000	40000
Purchases from other entities		10000	20000
Beginning inventory		250	750
Ending inventory		500	2250
Instructions.			

Instructions:

Calculate the value of the national product according

to the final product method.

Solution

National product = the value of the final product ± the inventory change National product = 40000 + (500 + 2250 - 250 - 750) = 41750 million pounds According to this method, final product will represent the sales of C entity (40000), whereas the change in the inventory will represent the difference between the ending inventory and the beginning one.

Second: The value-added method:

The value added is measured by means of the differences between the value of commodities and services produced by the unit and the value of the intermediary commodities obtained by this same unit from the other units, and which represent the production inputs. For example, if the production value of a certain textile company during a year amounted to L.E.5,000,000 and the value of the yarns (raw materials) used in the production of textiles for the same year amounted to L.E.2,000,000, then the added value for this company will be L.E.3,000,000.

Of course, the production of commodities for final consumption usually requires several production operations. An example of such production the readymade clothes (الملابس الجاهزة) which starts with the planting of cotton, then this cotton is turned and converted into yarn (اغزل), with the yarn then turned into textile (نسيج), and with the textile then turned into dyed cloth or fabric (قماش أو خامات مصبوغة). The cloth or material is then turned into ready-made clothes. Throughout these production operations, other entities perform transport and storage services which create a localized and timing benefit for the commodities, as a result of which they increase their value.

The value added that is calculated according to the previous method expresses the overall value added. To calculate the net value added, it is necessary to subtract the value of the fixed assets depreciation from the overall value added, where the depreciation value expresses the depreciation of capital represented by the fixed assets against using it in the production process.

Gross Added Value at market prices = Production value at market prices* (-) purchased intermediary commodities. *Production at market prices include: local sales + exports + inventory change + products for internal uses + self-consumption of products + services sold to others + production remnants.

Net Added Value at market prices = Gross Added Value (-) Depreciation of fixed assets. <u>Example 2:</u>

The following date relate to one of the national economic sectors which consists of three economic entities: A that sells its production to B which sells its production to C Which in turn sells its production to the final consumers (amounts in L.E. millions):

Description	A	B	С
Sales	25000	50000	100000
Purchases from other entities		25000	50000
Changes in inventory		2000	3000

Instructions:

Calculate the contribution of the three economic entities in the national product according to the added value method.

Solution

Α	B	С
25000	50000	100000
	2000	3000
25000	52000	103000
	25000	50000
25000	27000	53000
	 25000	25000 50000 2000 25000 52000 25000

Total added values at market price = 105000 millions.

Suppose that the depreciation of fixed assets (capital) during the period amounted to 20,000 million pounds. Then the net added vale at market price = 105000 - 20000 = 85000 million pounds.

Example 3:

The businesses sector consists of three production units: A which extracts petroleum, refines it, and sells all its production to unit B which produces benzene and sells it in full to unit C which performs the marketing operations of benzene to the end-customers. The information of costs and sales of the three units during one of the years was as follows (amounts in L.E. millions):

Description	Α	B	C
Sales	1250	2425	3500
Wages	450	300	500
Rent	150	75	100
Interests	25	50	25
Instructions:			

Prepare the production account for each of the production unit.

Solution The Production Account of Unit (A) Uses Resources Wages 450 Petroleum sales 1250 150 Rent Interests 25 Profits (net balance) 625 **Total** 1250 **Total** 1250

The Production Account of Unit (B)

Uses	Resources		
Petroleum purchases	1250	Benzene sales	2425
Wages	300		
Rent	75		
Interests	50		
Profits (net balance)	750		
Total	2425	Total	2425

The Production Account of Unit (C)

Uses		Resources	
Benzene purchases	2425	Benzene sales to the	
Wages	500	consumers	3500
Rent	100		
Interests	25		
Profits (net balance)	450		
Total	3500	Total	3500

According to the above information, it would be

possible to prepare a Consolidated Production Account for the three units, with the exclusion of the intermediary commodities exchanged between them as below:

The Consolidated Production Account			
Uses	Resources		
Wages	1250	Benzene sales to the	
Rent	325	consumers	3500
Interests	100		
Profits (net balance)	1825		
Total	3500	Total	3500

Notes:

• The national product (the sales of the end-products)

= L.E.3500 millions.

- The national product (total incomes of the production factors) = L.E.3500 millions.
- The national expenditures = L.E.3500.
- The value added to unit (A) = L.E.1250 millions.
- The value added to unit (B) = 2425 1250 = L.E.1175 millions. Or = 300 + 75 + 50 + 750 = L.E.1175 millions.

- The value added to unit (C) = 3500 2425 = L.E.1075 millions. Or = 500 + 100 + 15 + 450 = L.E.1075 millions.
- The overall total value added = 1250 + 1175 + 1075 = L.E.3500 millions. Or = 1250 + 325 + 100 + 1850 = L.E.3500 millions.

To summarize the above mentioned points with respect to the concept of the national product, the following is pro forma of the Statement of National Product according to the value added method.

National Product Statement For the Financial Year Ended 30/6/20...

Production at market prices	XX
Deduct: Intermediary commodities & services requisites	(xx)
Gross local product at market prices	XX
Deduct: Depreciation of fixed capital	(xx)
Net local product at market prices	XX
Deduct: Net indirect taxes	(xx)
Net local product at production factors' cost	XX
± Net factorial incomes from (or to) abroad	XX
Net national product at production factors' cost	XX

<u>Example 4:</u>

Hereunder are the production data relating to the

national economic sectors of a State for the year ended

June 30/ 2019 (amounts in L.E. millions):

*Sales of commodities & services	40000
*Intermediary commodities & services	15000
*Inventory change at market price	10000
*Depreciation of fixed assets	1000
*Self-consumption of products	8000
*Indirect taxes	1200
*Subsidies	800
*National production factors' incomes from abroad	4000
*Foreign production factors' incomes from inside	1600

Instructions:

Determine the net national product at production factors' cost.

Solution

Calculations:

*The value of production at market price = sales +
inventory change + self-consumption of products
= 40000 + 10000 + 8000 = L.E.58000 million.
*Net indirect taxes = indirect taxes - subsidies
= 1200 - 800 = L.E.400 million.
*Net factorial incomes from (or to) abroad = Received factorial incomes from abroad - paid factorial incomes to foreigners

= 4000 - 1600 = L.E.2400 million.

National Product Statement For the Financial Year Ended 30/6/2019

I of the I manchar I car Ended 00/0/2017		
Production at market prices	58000	
<i>Deduct:</i> Intermediary commodities & services requisites	(15000)	
Gross local product at market prices	43000	
<i>Deduct:</i> Depreciation of fixed capital	(1000)	
Net local product at market prices	42000	
Deduct: Net indirect taxes	(400)	
Net local product at production factors' cost	41600	
± Net factorial incomes from (or to) abroad	2400	
Net national product at production factors' cost	<u>44000</u>	

4- The Concepts of National Income:

National income is defined as "the total incomes earned by the individuals as a result of their participation in the realization of the national product". In other words, it means the total of incomes received or due to the production factors during a certain period of time as a result of their contribution in the production process. Such incomes represent the return on works, in the form of all that is earned by the workers as a result of undertaking work as wages, bonuses, cash and fringe benefits or social securities.

On the other hand, return on property includes the profits realized by the capitals, interests realized by the deposits, loans, and the rents realized by real estate (lands and buildings), in additions to the profits of the organizers. The returns on property must include the implicit (ضمني أو مجازي أو محتسب) rent of owned and occupied buildings by the governmental units.

The proper measurement of the national income must exclude the following:

• The income transfers such as donations, subsidies, pensions and the end of service bonuses because they represent an increase in the income of the receiver and a decrease in the income of the provider.

- The interests on loans, bonds and dividends or shares profits represent part of the national income when realized in the units which have used the funds. Accordingly, it must be excluded them when they are disbursed to their recipients to avoid duplication.
- The revaluation and capital profits are excluded as they do not represent an addition to the national product.
- Taxes are excluded on the basis that they represent the transfer of part of the tax-payer's fortune to the governmental entity. They were also measured previously as part of the tax-payer's income.
- The written-off debts are excluded as they represent the transfer of part of the creditor's wealth to the debtor.

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