

MODULE 4

FINANCIAL REPORTING IN GOVERNMENT

OUTLINE

- Cash Flow Statement
- Value-Added Statements
- Published Reports
- Interpretation of Financial Statements
- Accounting for Ministries
- Preparation of Trial Balance and Transcript
- Salaries / Wages and Variation Control.

Cash Flow Statements

Introduction

Neither the statement of comprehensive income account nor the Statement of Financial Statement gives a satisfactory explanation of how a business obtains and uses its cash. The cash flow statement is very revealing of the core operations of a Government, Parastatal or Board on the affordability or otherwise of adequate liquid resources.

Cash flow cont'd

To prepare a cash flow statement, the following accounting documents are required:

Statement of Financial Position at the beginning and at the end of the year.

Statement of Financial Performance for the year

Key Terms in Cash Flow Statements

Cash: This comprises cash on hand and demand deposits in the bank.

Cash Equivalents: Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value.

Cash Flows: These are inflows and outflows of cash and cash equivalents.

Operating Activities: These are the principal revenue producing activities of the enterprise. They are not investing or financing activities.

Cash flow cont'd

Examples of Operating Activities

(a) Cash received from the sale of goods and rendering of services.

(b) Receipts from internally generated revenue of government.

(c) Cash payment

(c) Cash payments for overhead expenses.

(d) Payment of personal emoluments.

(e) Receipts from statutory allocations of Government

- **Investing Activities**

- These are the acquisitions and disposals of long-term assets and other investments not included in cash equivalents.

- Examples of Investing Activities

- Cash payments to acquire property, plant and equipment, intangible and other long-term assets.

- Cash received from the sale of property, plant and equipment, intangible and other long-term assets.

Cash flow cont'd

- Cash payments to acquire equity or debt instruments of other enterprises and interest in joint ventures.
- Cash received from the sale of equity and debt instruments of other enterprises and interests in joint ventures.
- Cash advances and loans made to other parties, other than advances and loans made by the financial institutions.
- Cash payments to suppliers for goods and services.
- Cash payments to and on behalf of the employees.
- Cash payments for the purchase of motor vehicles

Financing Activities

- These are activities which result in changes in the size and composition of equity capital and borrowing of the enterprise. Examples are:
- Cash proceeds from issuing shares and other equity instruments.
- Cash payments to the owners to acquire or redeem the enterprise's shares.
- Cash proceeds from issuing debentures, loans, bonds,

Cash flow cont'd

- mortgages and other short or long-term borrowing.
- Cash repayments of amount borrowed.
- Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
- Cash dividends

Methods of preparing cash flow statement

The methods used for preparing cash flow statements are:

- The direct method, whereby major classes of gross cash receipts and payments are disclosed.
- The indirect method, whereby net profit or loss is adjusted for the effect of transactions of non-cash nature, depreciation or accruals of past or future operating cash receipts, payments and items of income or expenses associated with investing or financing cash flows.

Cash flow cont'd

The following information was obtained from the records of the office of the Accountant-General for the Federal Republic of Nigeria for the year ended 31 December 2013

| | 2013 | 2012 |
|---|------------|-----------|
| | Million | Million |
| Value Added Receipts | 2,295,000 | 2,196,000 |
| Miscellaneous Revenue | 375,000 | 425,000 |
| PIT- Direct Tax | 10,500,000 | 7,200,000 |
| Allocation for collection costs (FIRS and Customs) | 3,075,000 | 3,305,000 |
| Personnel costs | 7,200,000 | 9,600,000 |
| Share Of Statutory Allocation | 13,500,000 | 8,450,000 |
| CRF Charges | 2,250,000 | 3,750,000 |
| Grants and subvention from foreign donors | 75,000 | 87,000 |
| Rent Of Federal Government Properties | 285,000 | 295,000 |
| Overhead Charges | 1,500,000 | 1,200,000 |
| Subvention to <u>Parastatals</u> | 1,800,000 | 1,900,000 |
| Sales of Federal Government Properties | 375,000 | 485,000 |
| Repayment of Loans | 870,000 | 243,000 |
| Purchases and Construction of Non-Current Assets | 2,500,000 | 2,700,000 |

Cash flow cont'd

| | | |
|---|------------|-----------|
| Purchases and Construction of Non-Current Assets | 2,500,000 | 2,700,000 |
| Proceeds from Sales of Federal Government Properties in Yenagoa | 1,050,000 | |
| Purchases of Marketable Securities | 500,000 | 300,000 |
| Cash and Cash Equivalent 1 Jan. 2013 | 3,750,000 | - |
| Proceeds from Loans and other Borrowings | 3,000,000 | 1,000,000 |
| Cash and Cash Equivalent 31 Dec. 2013 | 21,660,000 | 3,750,000 |

Prepare a Cash flow Statement for the year ended 31 December 2013 using the Direct Method

Cash flow cont'd

FEDERAL REPUBLIC OF NIGERIA

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

| | 2013 | 2012 |
|--|--------------------------|--------------------------|
| Receipts | | |
| Share of Statutory Allocation | 13,500,000 | 8,450,000 |
| Value added tax | 2,295,000 | 2,196,000 |
| Personal Income Tax - Direct Tax | 10,500,000 | 7,200,000 |
| Allocation for Collection Cost | 3,075,000 | 3,305,000 |
| Grants and Subvention Received | 75,000 | 87,000 |
| Miscellaneous Revenue | <u>375,000</u> | <u>425,000</u> |
| Total Receipts | <u>29,820,000</u> | <u>21,663,000</u> |
| Payments | | |
| Personnel Costs | 7,200,000 | 9,600,000 |
| Consolidated Revenue Charges | 2,250,000 | 3,750,000 |
| Overhead Charges | 1,500,000 | 1,200,000 |
| Subvention to Parastatals | 1,800,000 | 1,900,000 |
| Total Payments | <u>12,750,000</u> | <u>16,450,000</u> |
| Net Cash Inflow From Operating Activities | <u>17,070,000</u> | <u>5,213,000</u> |
| Cash Flow From Investing Activities | | |
| Sales of Federal Govt. Properties in Yenagoa | 1,050,000 | |
| Purchases and Construction of Non-Current Assets | (2,500,000) | (2,700,000) |
| Purchases of Marketable Securities | (500,000) | (300,000) |

Cash flow cont'd

| | | |
|--|--------------------------|-------------------------|
| Sales of Government Property | 375,000 | 485,000 |
| Rent of Government Property | <u>285,000</u> | <u>295,000</u> |
| Net Cash Outflow from Investing Activities | <u>(1,290,000)</u> | <u>(2,220,000)</u> |
| Cash Flow from Financing Activities | | |
| Proceeds from Loans and other Borrowing | 3,000,000 | 1,000,000 |
| Repayment of loan | <u>(870,000)</u> | <u>(243,000)</u> |
| Net Cash Outflow from Financing Activities | <u>2,130,000</u> | <u>757,000</u> |
| Net Increase in Cash and Cash Equivalent | 17,910,000 | 3,750,000 |
| Cash and Cash Equivalent 1 January | 3,750,000 | - |
| Cash and Cash Equivalent 31 December | <u><u>21,660,000</u></u> | <u><u>3,750,000</u></u> |

Value-Added Statements

Value-added statement (VAS) or reporting is a modified version of the profit and loss account. Like profit and loss account, the VAS reveals the operating performance of a company at a given point in time, using both accrual and matching procedures. However, the VAS does not aim to provide a profit (or loss) figure as in the case of profit and loss account but a figure or return to a larger group of capital and labour providers (i.e., owners, employees), other claimants or interested parties.

The term 'value-added' means the market price of the output of an enterprise less cost of bought-in goods and services. The resulting balance money is known as the value-added by an enterprise and this money can be divided among the various parties who have contributed in the production of goods and services of the enterprise in the form of factor inputs.

Thus, the owners (or shareholders), creditors and governments (through taxation) are recipients of the enterprise income. Thus, the value-added income would include wages, rent, interest, taxes, dividends paid to shareholders and retained income of the company.

The value-added statements can be derived from the profit and loss account.

Value-Added Statements cont'd

**Below is the Income and Expenditure Accounts of RIVER BASIN
AUTHORITY, OLUOKUN STATE for the Year Ended 31 December, 2009**

| | ₦ | ₦ |
|---|------------------|---------------------|
| Gross Income | | 41, 100, 000 |
| <u>Costs incurred</u> | | |
| Salaries and Pension | 15,000,000 | |
| Purchase of weed control chemical | 3,600,000 | |
| Depreciation (tractors, etc) | 2,000,000 | |
| Lubricants and Oil | 1,600,100 | |
| Purchase of stationery | 1,100,100 | |
| Utility (water, light, etc) | <u>500,000</u> | <u>(23,800,200)</u> |
| | | 17,299,800 |
| <u>Interest due</u> | | |
| Bank loan | 1,040,000 | |
| Agric bank loan | <u>2,960,000</u> | <u>(4,000,000)</u> |
| Surplus realized on Ordinary operations | | 13,299,800 |
| Surplus for last year <u>b/f</u> | | <u>9,500,200</u> |
| Surplus carried forward | | <u>22,800,000</u> |

You are required to prepare the Value Added Statement for the year ended 31 December, 2009.

Value-Added Statements cont'd

RIVER BASIN AUTHORITY, OLUOKUN STATE Value Added Statement for the Year Ended 31 Dec, 2009

| | ₦'000 | % |
|--|--------------------------|----------------------|
| Turnover | 41,100,000 | |
| <u>Less: Bought in goods and services</u> | 6,800,200 | |
| Value Added from Operations and Other Income | 34,299,800 | |
| <u>Add: Other Income</u> | - | |
| <u>Less Other Expenses</u> | - | |
| Total Value Added | 34,299,800 | 100 |
| <i>Applied as follows:</i> | | |
| Employees | 15,000,000 | 43.73 |
| Government (Tax) | - | - |
| Providers of Capital | 4,000,000 | 11.66 |
| Provision for growth and expansion | <u>15,299,800</u> | 44.61 |
| Total Value Distributed | <u>34,299,800</u> | <u>100.00</u> |

Value-Added Statements cont'd

Notes to the Account

Bought-in-goods and services

| | |
|-----------------------------------|------------------|
| Purchase of weed control chemical | 3,600,000 |
| Lubricant and oil | 1,600,100 |
| Purchase of Stationery | 1,100,100 |
| Utility (Water, light, etc) | <u>500,000</u> |
| | <u>6,800,200</u> |

Providers of Capital

| | |
|------------------------------|------------------|
| Interest on Bank Loan | 1,040,000 |
| Interest on Agric. Bank Loan | <u>2,960,000</u> |
| | <u>4,000,000</u> |

Provision for Growth and Expansion

| | |
|--|-------------------|
| Depreciation Charges | 2,000,000 |
| Surplus realized on ordinary operation | <u>13,299,800</u> |
| | <u>15,299,800</u> |

Employees

| | |
|--------------------|------------|
| Salaries & Pension | 15,000,000 |
|--------------------|------------|

Published Reports

Public Report in the public sector entity comprises:

- The statement of financial position
- The statement of financial performance
- The cash flow statement
- The statement of changes in net asset / equity
- The notes to the financial state

Interpretation of Financial Statements

Interpretation of financial statement can only be well interpreted with use of ratio analysis.

Ratio

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

Financial Ratio Formulas

- Operating Cycle Ratios:
- Liquidity Ratios:
- Profitability Ratios:
- Activity Ratios:
- Solvency/ leverage Ratios
- Market/Investors/Shareholders Ratios
- Return Ratios

Interpretation of Financial Statements cont'd

Ratio analysis is a useful tool for users of financial statement. It has following advantages:

Advantages

It simplifies the financial statements.

- It helps in comparing companies of different size with each other.
- It helps in trend analysis which involves comparing a single company over a period.
- It highlights important information in simple form quickly. A user can judge a company by just looking at few numbers instead of reading the whole financial statements.

Limitations

- Despite usefulness, financial ratio analysis has some disadvantages. Some key demerits of financial ratio analysis are:
- Different companies operate in different industries each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two companies from different industries might be misleading.
- Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.

Interpretation of Financial Statements cont'd

Ratio analysis explains relationships between past information while users are more concerned about current and future information.

Interpretation of Financial Statements cont'd

Jobach Nig. Ltd. is a manufacturer of Baby Foods. The balance sheet of the company is given below in line with format stated in CAMA.

Jobach Nigeria Ltd. Balance Sheet as at 31st December 2010

| | ₦ | ₦ |
|----------------------------------|------------------|-------------------|
| Assets Employed | | 9,350,000 |
| Investment at cost | | 3,750,000 |
| <u>Current Assets</u> | | |
| Stock Balances | 8,140,000 | |
| Debtors & Prepayment | 5,800,000 | |
| Cash & Bank balances | <u>4,920,000</u> | |
| | 18,860,000 | |
| Less: <u>Current Liabilities</u> | | |
| Creditors & Accrual | 7,050,000 | |
| Taxation | <u>1,685,000</u> | |
| | 8,735,000 | |
| | | <u>10,125,000</u> |
| | | <u>23,225,000</u> |

Interpretation of Financial Statements cont'd

Represented by:

| | |
|------------------|-------------------|
| Accumulated Fund | 15,075,000 |
| Net Profit | <u>8,150,000</u> |
| | <u>23,225,000</u> |

Additional Information

- Turnover represents 75% of net asset
- Cost of sale represents 45% of the aggregate turnover
- Trade Debtors represent 31% of the aggregate Debtors and prepayment
- Credit sales represent $\frac{1}{5}$ of the aggregate sales
- Credit purchases represent $\frac{1}{3}$ of cost of sales.

Required:

- Calculate the following ratios from the above data
 - Current ratio
 - Liquidity ratio

Interpretation of Financial Statements cont'd

[a] i) **Current Ratio** = Current Assets ÷ Current Liabilities

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{18,860,000}{8,735,000} = \underline{\underline{2.2:1}}$$

ii) **Liquidity Ratio**

$$\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}} = \frac{18,860,000 - 8,140,000}{8,735,000} = \frac{10,720,000}{8,735,000} = \underline{\underline{1.2:1}}$$

Accounting for Ministries

Accounting for ministries or public sector entities are prepared in accordance with International Public Sector Accounting Standards (IPSAS). Both the accrual and cash basis comprises the following reports to be published.

- The statement of financial position
- The statement of financial performance
- The cash flow statement
- The statement of changes in net asset / equity
- The notes to the financial state

Review Questions

The following summarized information has been obtained from UNIPET KONSULT, the consultancy outfit of the University of PETELE STATE, in respect of the year ended December 31, 2008.

| | N million |
|---------------------------------------|------------------|
| Salaries | 4,680 |
| Purchased material used in production | 10,800 |
| Sales | 19,700 |
| Corporate tax for the year | 600 |
| Proposed dividend | 330 |
| Services consumed | 2,130 |
| Depreciation of fixed assets | 360 |
| Loan interest paid | 360 |

You are required to prepare Value Added statement.

- What are the component of financial statement by federal and state government in Nigeria
- Distinguished between the component of cash flow methods

Reference

- ANAN PARK
- Adebayo Paul Adejola: (2013) International Public Sector Accounting Standards; A practical Guide for Reporting Entities in Nigeria. Arogbodo Press Ltd.
- Adebayo Paul Adejola: (2014) Public Sector Accounting Revision Park for Students and Professionals.