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Application of Management Accounting at Vietnamese Public Sector Entities in the Current Period: Actual State and Solutions

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Abstract: In the current period, it is really necessary for Vietnamese public sector entities to apply management accounting for the following reasons: (1) Although public sector agencies enjoy the State budget supports to implement assigned tasks, the management way and style for the successful achievement of objectives is a major issue. (2) There has been an increasing trend towards the socialization of public sector for the purpose of raising the sense of initiative, expenditure self-control, reducing a burden on the State budget, and promoting competitive advantages of public sector agencies. (3) Increasingly intensive and extensive international integration, including public sector integration, is an objective requirement for public sector agencies in the organization and operation process. This article deals with the assessment of the actual state as a basis for proposing solutions to the application of management accounting in the public sector. How application of management accounting for VietNam Public sector that helps the Government operates effective.

Keywords: public management accounting, Vietnamese public sector agency, actual state of public accounting, IPSAS

INTRODUCTION

Public Sector Entities are always exist and necessary for any Countries, because, it is controls, manages all economics Nation. The structure of public entities will be improve and complete to ensure the best effective activities. Besides, some other factors as financial policies, management target, the leader og entities...the tool of management accounting helps all Entities are become better, for especial as Developing Countries as Viet Nam. The paper is focus to applying management accounting on Viet Nam public sector entities nowadays.

The remaining sections are organised as follows: Section 2 provides the literature review of this paper. Section 3 Discussions and Results. Section 4 gives the Conclusions.

LITERATURE REVIEW

Vietnamese public sector agencies are State agencies enjoying the State budget supports to implement assigned functions and tasks, including Party agencies, Government agencies, people's procuracies, people's courts, and political-social organizations. Basically, Vietnamese public sector agencies may be divided into two types: (1) public sector agencies that implement political-social tasks according to assigned functions and tasks for not-for-profit purposes such as ministries, sectors, and State-owned enterprises (these agencies implement tasks and supply services while implementing business accounting objectives; (2) central and local government agencies; administrative agencies at central, provincial/city, district and commune/ward levels, etc.

The organizational structure of ministries and sectors at central and local levels is illustrated through the organizational structure of the Ministry of Finance as in Figure 1.

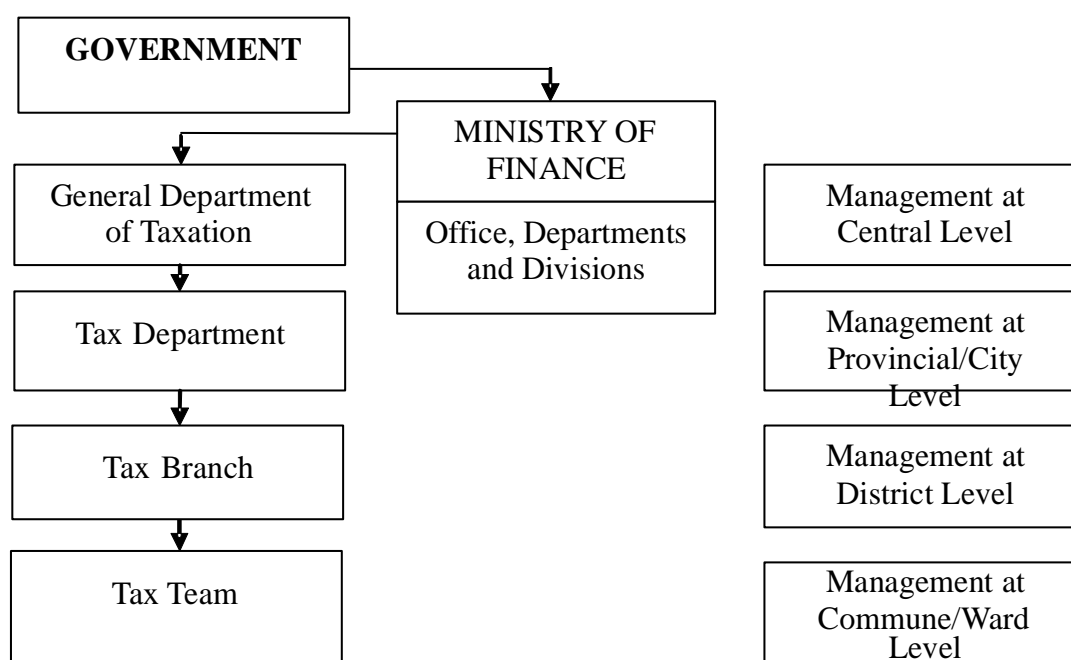


Figure 1: Illustration of management levels and relation to the tax sector

Source: Survey and synthesis by the author

Financial management agencies in provinces/cities (at provincial level: Department of Finance; at district level: Division of Finance); State treasury at central and local levels (at provincial level: Provincial State Treasury; at district level: District State Treasury); General Department of State Reserves at central and local levels. In addition, provinces/cities implement commune/ward management functions. Organizational structures of other ministries and sectors are similar to the organization structure of the Ministry of Finance.

The organizational structure of government agencies, social organizations and unions at central and local levels is shown in Figure 2.

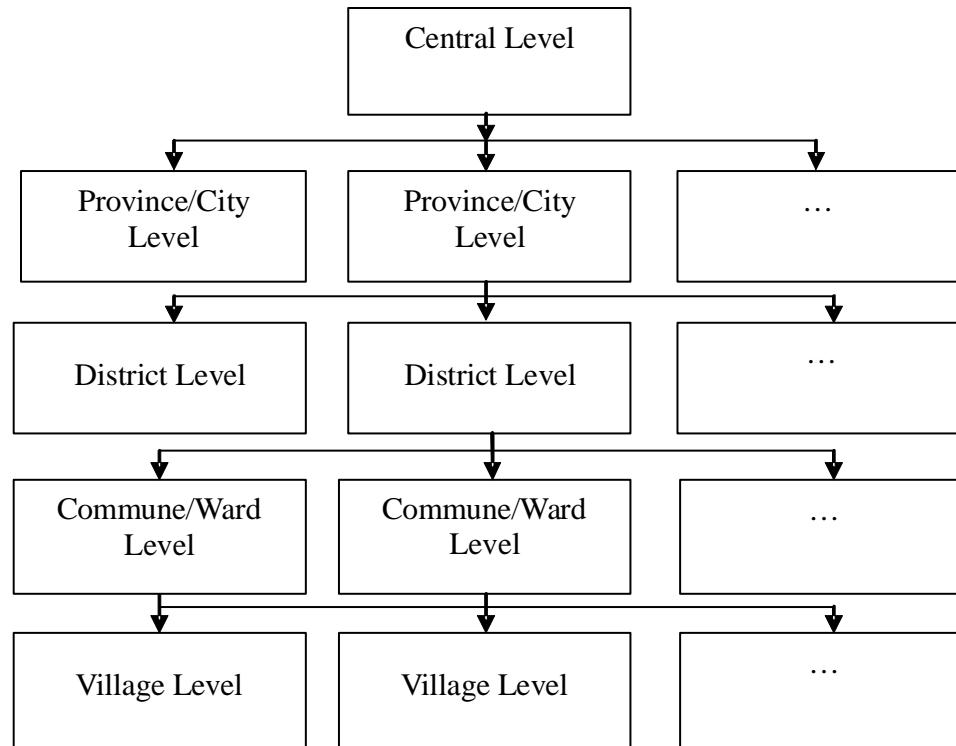


Figure 2: Government agencies at central and local levels

Source: Survey and synthesis by the author

Government agencies are logically organized on a top-down basis in vertical and horizontal order to implement assigned management functions. In particular, the central government agency (the Government) manages provinces/cities. At lower levels, there are districts, communes/wards, and villages.

The role of management accounting is to collect, process and supply information for the purpose of management at agencies. The nature of management accounting is planning and the flexible supply of economic and financial information with a view to making management decisions at agencies. On the basis of specific objectives and management levels, strategic management accounting is corresponding to senior management; management accounting implements objectives according to management levels; and management accounting is corresponding to levels of direct implementation of activities, etc.

The application of management accounting at public sector agencies is really necessary. Such necessity results from the real requirement. Self-control is increasingly strengthened, which requires leaders of public sector agencies to gradually improve the quality of public services and to take personal responsibility for the management of their organizations.

DISCUSSIONS AND RESULTS

In order that management accounting is scientifically and artistically applied at public sector agencies on the basis of organic relations between management accounting and public sector agencies, solutions to such application are proposed based on the following basic contents:

Performance of the strategy and plan formulation function

In specific conditions, macromanagement agencies are the Party, Government, National Assembly, ministries, provincial/city people's committees, or even district people's committees. However, depending on each management objective, these agencies perform the function of master and period strategy planning. For this reason, management accounting contents for this management level are implementation of objectives, formulation of strategies and plans, planning, and preparation of estimates. Management levels have estimate and national plan; estimate and local plan; estimate and sector plan; or estimate and organization's plan. Also, depending on the implementation period, there are long-term, medium-term and short-term plans:

- Preparation of annual State budget estimate. Annual State budget estimate is prepared in three "2-down, 1-up" phases: phase 1: instructions for estimate preparation and inspection announcement; phase 2: preparation and discussion of State budget estimate; phase 3: decision and allocation of State budget estimate. State budget estimate is prepared at the end of May and finishing the accounting period. The estimate preparation phase obviously reflects the focus on the National Assembly on the basis of responsibility assignment between organizations of State power and State management agencies in budgeting.
- Formulation of socio-economic development strategy for each period
- Establishment and improvement of mechanisms, policies and organization/management structures
- Formulation of master, period, short-term and long-term plans

Management accounting is associated with the preparation of State budget estimate and must be associated with socio-economic development plans. This is an organic and objective relation expressed in the following contents: the preparation of State budget expenditure estimate is associated with socio-economic development plans; the preparation of socio-economic development plans is associated with resources. There are three main types of State budget estimate, namely investment budget estimate, cash budget estimate, and operating budget estimate.

Performance of the management function

Management agencies at high level also manage, inspect, assess and approve plans of related agencies and sectors. During the implementation process, appropriate authorities will use proper "tools" for management. The Party, State and Government request ministries, sectors, provinces, cities, to implement plans, objectives and tasks determined in each period through appropriate authorities. Also, during the implementation process, it is important to apply the following management accounting contents:

- + Choice of investment alternatives to find the best alternative. Investment alternatives should be considered according to certain criteria such as return on investment, payback period, investment project efficiency, satisfaction of social needs, etc.
- + Establishment of responsibility centers at levels, departments and sectors. At each management level, a responsibility center will be established for various responsibilities such as responsibility for planning, inspection, supervision, bookkeeping, allocation, finalization of State budget, etc.
- + Determination of specific norms for each period

Application of the implementation function

State budget is allocated to units as approved calculation; however, the problem is how State budget should be utilized to improve use efficiency, be used properly and avoid being squandered. A detailed using plan should be made according to received objects. In terms of revenue and expenditure of State Budget, it is necessary to create a plan, make and implement collecting plan combining with examination, evaluation the process of implementing. Based on previous numbers and recent trend, predictions and advices are proposed. Implementing functions of management accounting has to count on Customs offices, Tax agencies, State Treasury; Department of Financial informatics and statistics, Commercial banks to carry on collecting management procedure. In details:

- + Tax agencies: presides and works with relevant agencies in collecting, guaranteeing and collecting collaboration, provides fully and exactly information related to tax identification number, name of payment applicant, table of contents of State Budget, tax period, and amount of tax paid by each payment applicant.
- + Customs offices: manage export-import tax, assure numbers calculated correctly and sufficiently and information of payment applicants.

Both Customs offices and Tax agencies need to collaborate with payment applicants, State Treasury and Commercial banks to manage, compare revenues, assure to collect correctly and sufficiently and adjust mistakes and timely.

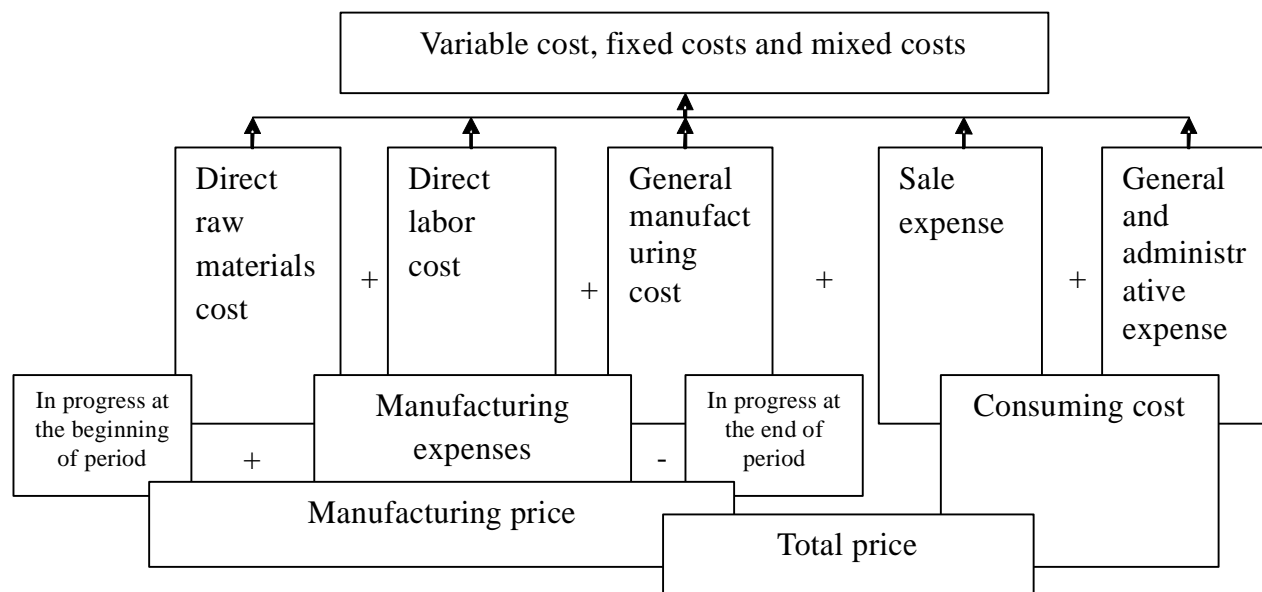
- + State Treasury: receives data and information of revenue of State Budget to note and account timely; simultaneously, manage and store information, digital data and convey necessary data to Tax agencies and Customs offices
- + Department of financial informatics and statistics: manage data, guarantee the maintenance, manage and update database used by Tax agencies, Customs offices, State Treasury and Commercial banks and assure information security and smooth infrastructure
- + Commercial banks: adequately and timely account revenues of State budget opened at Commercial banks in order to sufficiently provide information about number, account No., account balance of payment applicants

Application for calculation of public service cost

Cost calculation method means using monetary measurement concept to determine the value of accounting objects with a view to serving the procedure of receiving and processing, systemizing and delivering economic financial information at agencies and calculating the cost at noted initial moment, after initial note and when making a report.

Different from manufacturing units, public sector agencies mainly take responsibility for providing public services; therefore, it is necessary to calculate the cost of these services correctly and adequately. In terms of principles, the method used to calculate product price is based on a basic formula which is: Public service cost = all of expenses, a public sector agency have to pay to get provided service, together with other essential relevant costs supporting the provision of the service so that people can use properly, which is adjusted value in progress at the beginning of period and at the end of period. Some expenses related to

manufacturing include direct raw material cost, direct labor cost and general manufacturing cost. Besides, there are costs of public service consuming which are sale expense and General and administrative expense, Figure 3.



Figures 3: Determine cost and price of public services

Source: Survey and synthesis by the author

By determining the cost and cost of public service units, it is possible to calculate the price of public services. Public services price firstly depends on the cost of public services and is the price users have to pay to providers. It may be calculated according to market price or be regulated by State, which depends on social features of the public service. There are two types of public service price which are subsidized price and price without subsidy. The price of public services without subsidy and highly socialized will be calculated based on market mechanism, Supply and Demand; therefore, it is necessary to follow principles of trading account, which means paying all expenses and still having interest. With a view to increase self-control of public sector agencies, it is essential to determine public service price in order to make suitable decisions in managing and administrating which are education and training forms, vocational training, Medicine, Culture, sports and Tourism; communication information and journalism; Science and technology, economic career and other careers.

Preparation and presentation of reports

All of units take responsibility for make and perform a report (Accounting Statement and Budget Final Account). In case Accounting Statement includes Financial Statement and Administrative Report, in fact, there are specific rules for units of public services to perform Financial Statement and Final accounts, they are:

- + State Budget Final Account includes: Comprehensive report on expenses and final accounts of expenses from State budget; comprehensive report on expenses and final accounts of expenses

from advance of State budget; Detailed report on program and project cost; Notes to the Financial Statement of State budget

- + Financial Statement includes: Annual financial report; Annual performance report, Cash flow statement and Notes to the Financial Statement;

Other reports are Account balance sheet, Report on accounting expense from other sources; Report on executing petition of auditors, financial inspectors.

Performing Management accounting and management accounting report is the instruction to current units (both enterprises and public sector agencies); therefore, it is essential to implement compulsory regulations when applying management accounting and management accounting report for public sector agencies. It is suggested that Management accounting report should be divided into groups of management accounting report for public sector agencies:

- + The group performing asset using and origin of assets: includes report on asset management and using and origin of assets, then provides information about assets, long term and short term internal capital to help leaders make effective decisions of asset management and administration.
- + The group performing expenses: includes reports on cost variance (standard compares with reality, previous period compares with this period, etc), report on manufacturing expenses and product and service price, report on sale expenses and administrative expense. Information in expense reports is able to help leaders make decision of expense control in order to achieve the goal of using properly, adequately and avoiding waste and loss, etc.
- + The group determining performance: includes reports on..., report on operating performance in details of each type of provided services, report on estimated performance in the future, etc. These information will help managers to introduce suitable policies for each period and achieve the best results for units
- + The group performing the whole field in general: is essential for managing and administrating the whole field. They are reports on revenue, general performance, report on general revenues, report on general assets.

Application into analysis and forecast of economic phenomena

The evaluation shall be conducted quarterly and annually with the aim of determining the causes which affect the revenues in order to propose solutions and recommendations in the process of State budget management, to analyze and assess the deployment situation, implementation results of collection measures, assess the handling and recovery of outstanding taxes and debts, receivables, amounts already paid and receivables, to analyze and assess the results of coordination among different levels and branches. Based on such analysis and assessment, give forecasts on socio-economic situation, economic growth rate, indicators of production output and consumption of major products; the growth rate of industrial production value, etc. For the state budget revenues, it is necessary to forecast revenue to take timely adjustment measures in terms of 9 months, 6 months and 3 months, through three models of revenue forecasts for taxes as follows:

- + The macro model or GDP-based model: this model requires that data could be managed and based on the basic principle between the tax base and the tax revenue, which means that if there

is no change in tax legislation, the increase in tax revenue is due to an increase in the tax base by the time (GDP, consumption, import value, etc.) and the flexibility between the tax revenues and tax base.

- + Typical macro tax simulation model: This is a relatively complex model, which requires a lot of data, allows to analyze the impact of a change in tax policy or changes in tax structure on taxable subjects, with different tax policies, then compare and select the appropriate policy with specific conditions as well as forecast the total tax revenues without any change of tax policy or tax structure. Another aspect of the micro-model is the tax model and the economic model combination.
- + Monthly revenue model: the purpose of this model is to forecast monthly revenues, which is useful for allocating tax collection target among tax officials and their supervisors. This model requires small volume of data, just taking into account the monthly revenue of the preceding year and the monthly revenue in current year with the GDP growth rate in next year.

Analysis and forecasting are performed by group of indicators such as workload, results of work, costs of works, etc., When analyzing and forecasting, it is necessary to clearly identify causes, trends and influence factors and by stages, by specific content as either qualitative or quantitative. The proposed analytical process is as follows:

- + Stage of unit learning and analysis planning
- + Stage of synthesis and documentation
- + Stage of process of analysis methods and techniques
- + Stage of results synthesis and comprehensive analysis report writing
- + Stage of information provision and analyzed results application

CONCLUSIONS

Thorough understanding and application of Management Accounting into public sector agencies is necessary in the current situation in Vietnam because of stemming from management requirements of the State, the policy of gradual transfer to the autonomy, self-responsibility taking mechanism., above all from the important applications of Management Accounting. Unlike in the past, public sector agencies have been merely benefited from the State Budget and performed their assigned tasks, but now public sector agencies must take self-responsibility for their operations, towards higher autonomy in management, planning and resources for such operation. The characteristics of a public sector agencies could be divided into two groups: (1) performance of social and political tasks only; (2) provision of public services to society with charges and business accounting. Based on that, the confirmation to apply Management Accounting into executive management corresponding to each management level, it is needed to:

Firstly, Thoroughly understand the organizational structure, purpose of operation and relationship in the current political and social system. Understand the contents of Management Accounting so that it could be applied each specific content of Management Accounting into the public sector agencies.

Secondly, perform the function of strategies and plans development: Development of short-term and long-term strategies and plans will help the management to be proactive, able to achieve the goals in each period with harmonious and reasonable solutions.

Thirdly, perform the function of management: from developed strategies and plans, it will be specifically managed by each level from Central to local, by each Ministry and branch in the organic relationship of the same goal of managing the economy.

Fourthly, perform the function of implementation: the implementation levels are responsible for performing assigned contents and tasks in the best way. This could be considered as a low-level responsibility center associated with Investment center, cost center

Fifthly, apply to pricing for public services: the pricing includes determination of the price and the selling price of public services in which the public services prices are determined by the type supported and subsidized by the State and the price type covered by public sector agencies, based on that to determine the selling price of the corresponding public services.

Sixthly, prepare and present the report: in addition to the financial statements and budget settlement reports which have been prescribed by the Vietnamese accounting and financial policies, it is necessary to supplement the Management Accounting report system to perform management goals in each period by each area and category.

Seventhly, apply to analyze and forecast economic phenomena: based on collected information, management accounting must synthesize, analyze and provide economic information of public sector agencies serving management and decision-making of the manager. The information must be analyzed based on proportional, alternate, comparative, absolute methods, etc., simultaneously, to make forecasts, short-term, long-term goals in the future...

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