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Governmental Accounting in Rwanda

A case study with focus on the financial statements

Master thesis within the main profile of International Business

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Abstract

The purpose of this thesis is to analyse the consolidated financial statements of the government of Rwanda for the year ended 31 December 2008. Two types of accounting are discussed namely, money accounts and accrual (profit) accounts. The aim is to discuss which accounting model is used to prepare the financial statements of Rwanda. We found out that, the accrual accounts (fund accounting) are used in Rwanda to report the money effects of revenues and expenditures. Accordingly, we introduce the cameral accounting as an alternative framework, which allows using the money (cash) accounts to report the money effects of revenues and expenditures. By using the cameral accounts, governmental organisations can achieve their three principal objectives namely, money management, budgetary control and payment control. We believe that the preparation of financial statements using cameral accounts is much easier and flexible, particularly because cameral accounts are using the single-entry bookkeeping method.

Key words: *Governmental financial statements, accountability, revenues and expenditures, IPSASs, cash basis of accounting, accrual basis of accounting, governmental accounting, fund accounting, cameral accounting.*

Foreword

International governmental accounting continues to generate considerable debate. Consequently governmental accounting is changing in many countries; also in Rwanda. Most studies of governmental accounting have focused on European countries, Australia and New Zealand. Unfortunately, we do not know much about governmental accounting in Africa including Rwanda. Therefore, it is of interest to study governmental accounting in Rwanda. Throughout my studies in Public Finances (major in taxation) as well as my work experience as a tax officer in Rwanda, my focus has always been to educate the taxpayers and to ensure that all taxes which should be paid according to taxation law in Rwanda have been paid. My interest in field of non-business accounting including governmental accounting increased strongly when I attended two courses at Norwegian School of Economics (NHH). The first course is “International Business and Non-business Accounting” (fall 2008), the second course is BUS 435”Regnskap og budsjettering i offentlige organisasjoner” (spring 2010). From these two courses I understood that not only governments need to maximize the collection of public revenues (taxes), but also must control that the public revenues are managed within the boundaries of a politically adopted budget. In addition, being aware of the fact that business accounting model via double-entry bookkeeping method is the only one known and used in Rwanda, I wanted to explore non-business accounting in my area of research. Therefore I chose “Assessment of financial statements in Rwanda” as the topic of my master thesis in the Master of Science in International Business program at NHH Bergen.

Almighty God, to you I gratefully dedicate my research.

I would like to express my gratitude to the administration at NHH, thank you very much. You make this happened. I have to thank my thesis supervisor, Professor Norvald Nytræ Monsen for his guidance and patience throughout the thesis writing process. Especially I thank you my beloved Vedaste and our dear son Glory, for your support and understanding.

Mwanaidi Mari Claire

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List of abbreviations

ACAM	Administrative Cameralistic s
BP	Bergen Project
BUS 435	Regnskap og budsjettering i offentlige organisasjoner
cp.	Compare
e.g	for example (exempli gratia)
ECAM	Enterprise Cameralistics
et al.	And others (et alii)
etc	and so on (et cetera)
FM	Financial Management
GB	Great Britain
GDP	Gross Domestic Product
GoR	Government of Rwanda
HIPC	Heavily-Indebted Poor Countries
i.e.	that is (id est)
ICT	Information and communications Technology
IFAC	International Federation of Accounts
IFRS	International Financial Report Standards
IMF	International Monetary Fund
IPSASB	International Public Sector Accounting Standards Board
IPSASs	International Public Sector Accounting Standards
MINECOFIN	Ministry of Finance and Economic Planning
NHH	Norwegian School of Economics
NPM	New Public Management
OAG	Office of the Auditor General
p.	page
pp.	Pages
TPM	Traditional Public Management
UK	United Kingdom
US\$	United States dollar
USA	United States of America

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CHAPTER 1: PROBLEM AND PURPOSE OF THE THESIS

1.1 Motivation

My principal motivation to undertake this study is to pursue my career passion in the field of governmental management and accounting. In so doing, I join my effort to those of various researchers who are seeking tirelessly how to enhance the quality of public sector accounting system. My study is about analysing the governmental accounting system in Rwanda. I recognise that Rwandan country has been more popular internationally after the genocide event which took place in 1994, and where approximately one million people were killed within only 3 months period of time. Yet, some people may still do not know much about Rwanda for various reasons such as: the huge geographical distance between Norway and Rwanda, the fact that Norway and Rwanda share very little if any historical, political, even cultural values. Therefore, as a Rwandan I should present my country briefly before starting my research. The aim is to motivate the readers of this thesis in general and eventually, those who may refer to it during their research process.

Rwanda country-brief

The Republic of Rwanda is a landlocked small country (26,338 sq km) in central and eastern Africa with a population of approximately 11 million. Rwanda is bordered by Uganda (North), Tanzania (East), Burundi (South) and the Republic Democratic of Congo (West). In 1884, Rwanda became a German colony and, in 1916 after World War I, the system of indirect rule continued with Rwanda as mandate territory of the League of Nations under Belgium. Years of political instability and brutal genocide in 1994 devastated the country's economy and its institutional capacity, including that for public financial management.



Figure 1: The Flag of Rwanda



Figure 2: Rwanda Locator

Economy of Rwanda

Rwanda's economy primarily depends on agricultural productivity. Almost 90 % strives on farming and livestock rearing. Unlike other African nations, Rwanda does not have mineral deposits or measurable natural resources. The industry and service sectors are not entirely developed to push the economy towards higher growth. Further, the economic profile of Rwanda suffered a serious setback during the 1994 genocide. In fact, the genocide resulted in the destruction of the emerging industrial sector. It caused widespread unemployment and population displacement. It also hampered the efforts towards attracting foreign investment. The table below illustrates some key statistics regarding the economy of Rwanda

Labor force	4.446 million (2007)
Labor in agriculture	90%
Budget revenues	\$1.261 billion
Budget expenditures	\$1.391 billion
Industrial production growth rate	7 % (2009 est.)
Current account balance	-\$208 million (2009 est.)
Exports	\$213 million (2009 est.)
Imports	\$786 million (2009 est.)
Foreign exchange reserve	\$619 million (December 2009 est.)
Exchange rate	568.75 Rwandan Francs per US Dollar

Table 1: Key statistics of the economy of Rwanda

Note that Rwanda's economy receives substantial monetary aid through the Heavily-Indebted Poor Countries (HIPC), initiative sponsored by the IMF and World Bank. Rwanda's long-term development goals are embedded in its Vision 2020 which seeks to transform Rwanda from a low-income agriculture-based economy to a knowledge-based, service-oriented economy by 2020. It envisages real growth of eight percent annually, to be achieved through: (i) deepening reforms, including in the business environment; (ii) investing in major infrastructure (power, transport, and ICT); (iii) increasing agricultural productivity; and (iv) investing in skills development needed for economic modernisation.

Development Challenges

Despite progress made to date, an estimated 56% of Rwandans still live below the poverty line, with about 37% classified as extremely poor. Furthermore, with a population growth of about 2.7% annually, Rwanda needs to achieve GDP growth of 8% per annum to make a significant dent in poverty. The economy is still dominated by low productivity subsistence agriculture which contributes over 36% of GDP, 80% of employment and 85% of exports. Expensive and limited supply of energy-electricity costs US\$0.22 per kWh compared to \$0.08-\$0.10 in the rest of the region, and high transport costs at US\$165 per ton per km compared to \$95 per ton per km in the rest of the region, significantly raise the costs of doing business in Rwanda.

Key labour market skills are also lacking almost 75% of Rwanda's labour force is unskilled and less than 10 % of its working population is educated beyond primary level.¹

Rwanda governmental accounting

All public accounts are kept in the currency of Rwanda, the Rwandan Franc. The Government has adopted “*International Accounting standards*” as the accounting standards to be used by all central government, local governments, autonomous public entities and extra budgetary funds. Moreover, these standards are adapted to suit the country context as appropriate. Concerning the financial statements and accounting policies, they are adhering, to the extent possible, to the *International Public Sector Accounting Standards (IPSASs), cash basis of accounting*. However, as noted in the reports of the Auditor general, that public accounting in Rwanda constitutes a weak area of the country's FM (financial management) system.² Some examples can illustrate the matter. First, the latest annual financial statements prepared by MINECOFIN which our analysis is based on dated on 31 December 2008. Second, most public entities do not have adequate financial systems that would enable them to prepare financial statements. Third, some public entities do not have basic or up to date books of accounts, and thus the GoR is not able to submit consolidated accounts to the OAG and subsequently to Parliament, as required by the Constitution.

1.2 The purpose of the thesis

Generally, the fundamental purpose of the Government's financial statements is to provide Parliament and civil society with information that will facilitate understanding and evaluation of the full nature and extent of the financial affairs and resources for which the Government is responsible. In this thesis, the study of financial statements of Government of Rwanda for the year ended 31 December 2008 is undertaken. The purpose is to assess to which extent the information provided by the Rwandan financial statements comply with the fundamental purpose of the Government's financial statements mentioned above. To this end, we will refer to the governmental financial reporting practices in developed countries including those in the

1

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/RWANDAEXTN/0,,menuPK:368714~pagePK:141132~piPK:141107~theSitePK:368651,00.html>

² (CFAA-report.pdf, june 2005)

continental Europe (German speaking countries) as well as those in the Anglo-Saxon countries. However, it is very important to bear in mind that this study does not intend to compare the financial annual report applied in Rwanda with any other in any country all over the world. We mean, despite the effort provided by the International Public Sector Accounting Standards Board (IPSASB) to harmonize governmental accounting between different countries and with international business accounting, there are still significant differences among countries that follow the accrual basis of accounting and those that follow cash basis of accounting. Moreover, even countries which follow the same accounting standards may bring differences because each country is free to adapt the standards to suit the country context. Therefore, the objective of this study is rather to assess to which extent the informations exhibited by Rwandan financial annual report facilitate understanding and evaluation of the financial affairs and resources for which it is responsible. The goal is to enhance the quality of the financial statements so that they will be more informative and easy to understand. The findings in this thesis may serve as a basic to International public sector accounting board (IPSABs) in their process to harmonize international governmental accounting. We mean, it is of a capital importance to IPSASB to know that a country governmental accounting is in the scope of IPSASs. Second, the government of Rwanda may use of this thesis as well. That is, this thesis will serve as a “yellow light” to the governmental accounting in Rwanda before moving from cash basis to the accrual basis of accounting. Because it is important to each government to know the reasons why and when to move from the cash basis of account to the accrual basis of account as stated by Wynne (2007) p 25: *“Over the last 20 years, there have been sustained calls for governments to move towards accrual based accounting and adopt private-sector style financial statements .Indeed; these moves have become some what of a trend or a fashion...”*³

And the last but not the least, different researchers in international governmental accounting may get use of this thesis especially for academic purpose.

This thesis is structured as follow: The first chapter describes the purpose of the thesis and the research question. The research question to be answered in this study is: “how informative are financial statements in Rwanda?” that is in other words,” to which extent the financial statements report in Rwanda facilitate understanding and evaluation of the management of public resources?”

³ Wynne (2007) p 25

The research question will be answered based on the financial statements report of government of Rwanda and the international governmental accounting theories. The second chapter is about the methodology to use in this research process.

That implies the choice of the research strategy which fits best with the purpose of this study, and the choice of the method to use when collecting and analysing the data. The method of collection and analysis of the data will depend a lot on the kind of the data we will use in our study, i.e qualitative vs. quantitative data. The third chapter provides a literature review. The ultimate goal of the literature review is to bring the reader up to date with current literature on governmental accounting topic in general. Whereas the case of governmental accounting in Rwanda accurately will be discussed in next chapter entitled “empiricism”. Beside its ultimate goal pointed out above, the literature review forms the basis for another goal, such as future research that may be needed in the area. The fourth chapter presents the financial statements of Rwanda government, which constitute our basis document of analysis. In this chapter we will present and comment briefly the main parts of the financial statements report of Rwanda government. And then, in the fifth chapter we will assess in great details the annual report of Rwanda government and thereafter formulate our conclusion in sixth and the last chapter.

CHAPTER 2: METHODOLOGY

In this chapter we will choose among 5 research strategies the one we believe fits best with the purpose of our study. After choosing the research strategy in our case “case study”, we will design our case study. There are four types of case study designs: single-case study designs vs. multiple-case study designs and holistic- vs. embedded –case designs (Yin, 2003). It is the research strategy together with the research design which will dictate the appropriate methods to collect and analyse the data.

2.1 The choice of the research strategy

According to Yin (2003), there are three conditions which guide the choice of a research strategy over others. . The first condition consists of the (a) type of research question posed, the second condition consists of the (b) extent of control an investigator has over actual behaviour events, and the last condition consists of the (c) degree of focus on contemporary as opposed to historical events. The three conditions are summarized in the table below.

Strategy	Form of research question	Requires control of behavioural events?	Focus on contemporary events?
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/no
History	How, why?	No	No
<u>Case study</u>	<u>How, why?</u>	<u>No</u>	<u>Yes</u>

Source: COSMOS Corporation

Table 2: Relevant situations for different research strategies

2.1.1 The type of research questions (figure 1.1, column 1)

According to Hedrick, Bickman, & Rog, 1993, the first condition of choosing a research strategy covers your research question(s). A basic categorization scheme for the types of questions is the familiar series: “who”, “what”, “where”, “how”, and “why”.

The aim of this thesis is to answer the research question of “*how*” *informative are the financial statements in Rwanda?*” The objective is to explore and get a basic understanding about the informations provided by the annual report in our disposition. We wish we could have the facilities to use the “*why*” questions in our research, so that we could know in great detail about the governmental accounting system in Rwanda. In other words, the “*why*” research question would help us to explain the reasons why the financial statements are presented exactly in that way. To this end, we will need to be at the place (Rwanda) and conduct a survey by interviewing different persons concerned. Unfortunately given the geographical, financial and time challenges related to the nature of this research, we prefer to limit our study to the “*how*” research question only. We mean, this research will focus on documentary information basically. Moreover, it could be more advantageous if we could get more than one annual report (for example the financial statements report for last year December 2010 and that of the year before i.e., December 2009), so that we could conduct a *multiple-case study*. In this way we could assess how governmental accounting system in Rwanda has been developed in different periods of time. Unfortunately, according to the information I got through the phone calls addressed to my former colleagues at the Ministry of Finance in Rwanda, and refer to the Rwanda government official website, the annual report of December 2008 is the only one available up to now. It is even impossible to find annual reports for the years before December 2008, because during that period the governmental accounting system in Rwanda was unable to prepare annual financial statements.⁴ Therefore, this thesis will answer the “*how*” research question only.

⁴ CFAA - report 2005

2.1.2 The extent of control over behavioural events (figure 1.1, column 2) and degree of focus on contemporary as opposed to historical event (figure 1.1, column 3)

Refer to the types of research questions discussed above; three research strategies namely: Experiment, history and case study are sharing the same form of research question, which are “*how, why*” questions. Thus, the differences between these three research strategies lie in two other conditions, i.e the extent of control over behavioural events and the degree of focus on contemporary as opposed to historical event. According to Yin 2003, the case study is preferred in examining contemporary events, but when the relevant behaviours cannot be manipulated. (Yin, 2003. p.7)

In this thesis, we are undertaking a study of a governmental accounting at this present point in time. Therefore by definition our topic is contemporary and not historical event. Yet, as we mentioned before, the challenges (geographical, financial and time) we are facing during this research process, also limit our access and control over behavioural events.

2.1.3 The summary of the research strategy

In this thesis, the choice of the research strategy was based on three conditions. The first condition consists of a type of our research question which is “*how*” type question. The second condition is the fact that we do not have access and control over actual behavioural events. It means that our research will be limited to the documentary informations as a source of data. Thus we will analyse the financial statements report of Rwanda government *status quo*. Because the financial statements report is a consolidated annual report, we will analyse the document as for one unity (the government of Rwanda) and for one period (December 2008). Therefore the case study will be qualified as a “*single case study* “. The last condition which guided the choice of a case study as a research strategy to use in this thesis is that our topic is by definition a contemporary event. We maintain that in this study, “*case study*” is more advantageous research strategy than others.

2.2 Design a case study

Whatever research strategy is, the research design is the logic that links the problem to be studied to the data to be collected and the conclusions to be drawn. Regarding the case study design specifically, there are four types of case study designs. A case study can be designed as a “single case study designs” vs. a “multiple case study designs”. In their turn, single- and multiple - case designs can be designed as “holistic” or “embedded” case designs. Yin (2003) claims that among these designs, most multiple-case even only two case designs are likely to be stronger than single-case designs. He argues that analytic conclusions independently arising from two cases will be more powerful than those coming from a single case alone. However, under several circumstances like when determining whether a theory’s propositions are correct or whether some alternative set of explanations might be more relevant, a single case study is an appropriate design. In this manner, the single case can represent a significant contribution to knowledge and theory building. We explained early in great details the reasons why we design our research as a “single- instead of multiple- case designs. In the following part, we will justify our choice between holistic and embedded case designs i.e. whether our analysis will involve one or more units of analysis. In fact, our basic document of analysis is termed “*consolidated*” *financial statements of Rwanda government*. The term “consolidated” means that the document is a “compilation” of financial statements from different budgets agencies⁵, (See Government of Rwanda, Manual of procedure Volume 3). In other words, we assume that financial statements from different budget agencies served as “raw data”⁶ in order to prepare the consolidated financial statements. Therefore, the conclusions we will reach concerning the consolidated financial statements as a whole, should be valid or applicable for each budget agency. On other hand, we acknowledge that the analysis of each concerned unit or budget agency in form of survey for instance, could be more advantageous in our case study. However, as explained before the geographical, financial and time challenges we are facing in this research process, prevent us to accomplish that task. We conclude this part by saying that our case study will be designed as a” *single and holistic case study*”

5 Budget agency: is a government entity which is entitled to a budget in the annual Finance Law (see http://www.minecofin.gov.rw/webfm_send/1429) p.1

6 Raw data: Saunders, et al.(2007), pp. 256-258

2.3 Data collection

The data collection process is a crucial step of every research project, because the data provides the basis for beginning to address and investigate research problems⁷. The usual problem for researcher when it comes to data is not the lack of it, or at least the potential for it, but rather the potential abundance of it.⁷ In order to be more effective and efficient in the research process, the data collection must be well planned and managed⁸. Planning and managing data collection systematically, requires an understanding of different types of data, of data collection methods and of specific techniques of data correction.

2.3.1 Types of data

Four types of data exist such as: primary versus secondary data and qualitative versus quantitative data.

*Primary versus secondary data*⁹

Primary data does not actually exist until and unless it is generated through the research process as part of project. That is why primary data is closely related to, and has implication for, the methods and techniques of data collection. For example, primary data will often be collected through techniques such as experimentation, interviewing, observation, and surveys. Secondary data, on the other hand, is information which has already been collected for some purpose.

Qualitative versus quantitative data

The overlap and similarities between qualitative and quantitative research are illustrated well by Blaxter et al. (2001)¹⁰

⁷ David Crowther and Geoff Lancaster (2009)

⁸ David et. al, (2009)

⁹ Amongst others, Saunders et al, (2003) suggest that one of the most fundamental distinctions between types or categories of data is that of primary versus secondary data. (David et al, 2009 p 74)

Qualitative paradigms	Quantitative
<ul style="list-style-type: none"> • concerned with understanding behaviour from actor's own frames of reference • naturalistic and uncontrolled observation • single case studies • holistic etc 	<ul style="list-style-type: none"> • seek the facts/causes of social phenomena • obtrusive and controlled measurement • multiple case studies • Particularistic Etc

Table 3: Qualitative versus quantitative research

Source Oakley (1999)

2.3.2 Methods of data collection and techniques

Apart from categorization of the data based on their types, it is possible to classify the data according to methods of data collection. Becker (1998), Gill and Johnson (2002), and Seale (2004), classified the data collection methods as follow:

- Secondary data collection,
- Case studies,
- Experimentation,
- Observation/ethnographics,
- Interviews and surveys,
- Action research.

Within each method of data collection there are different data collection techniques and instruments that again the researcher can choose between. When choosing among different data

collection methods and techniques, the researcher will base on some criteria such as: the purpose of the research, the cost/budgets, time, availability etc

In this study, since we are analyzing the governmental accounting in Rwanda, the principal data we need are the financial statements reports. Thanks to the personal calls and e-mails addressed to my former colleagues at the ministry of finances in Rwanda, I got one financial statements report of the year ended 2008. Later, the same financial statements report was posted on MINECOFIN web site.¹¹

2.3.3 Concluding comment

In this chapter we first choose the research strategy and we found that this study responded positively to a “*case study*” features. Next we designed the case as a “*single holistic case study*” and explain why. At the last point we discussed the different types of data, the data collection methods as well as the corresponding techniques. Because we designed this research as a single – holistic case study, consequently the data collection will be “*qualitative*” and the data collection method is “*the secondary data collection.*”

¹¹ www.minecofin.gov.rw

CHAPTER 3: LITERATURE REVIEW

The literature review constitutes the basis of this case study. As mentioned before the aim of this study is to assess how effective and efficient are the financial statements we are analyzing. Our principal task is to examine whether or not the financial report provides all information required by International financial report standards (IFRS) concerning the public sector. In the same time we will appreciate how easy the financial annual report is to understand. To achieve these objectives, we need to review some concepts and accounting methods used when reporting the financial statements of Rwanda. We mean that by understanding the concepts and the type of account used, it is much easier to understand each component of the financial statements as well as the financial annual report as a whole. Further, this chapter discusses various types of accounts which are not applied in Rwanda, but in developed countries. The reason for that is because we will refer to those types of accounts during our analysis, in our conclusion as well as in our recommendation. Furthermore, since the aim of this study is to analyze the financial statements of a government, the first concept to review is the ‘Government financial statements’.

3.1 Government financial statements

“Government financial statements” are annual financial statements or reports for the year, where the financial statements in contrast to budget¹², present the revenue collected and amounts spent. The government financial statements usually include a statement of activities (similar to an income statement in the private sector), a balance sheet and often some type of reconciliation. Cash flows statements are often included to show the sources of the revenue and the destination of the expenses.

¹² Referred to as “National budget” this is when a country finds out what the government's expected income and expenditure will be for that year.

3.2 Revenues and expenditures

According to Mülhaupt (1987), revenues and expenditures are the two main accounting concepts. In the following, the revenues and expenditures concepts are discussed using the figure exhibited by Monsen, 2011.

The concepts of 'revenue' and 'expenditure'

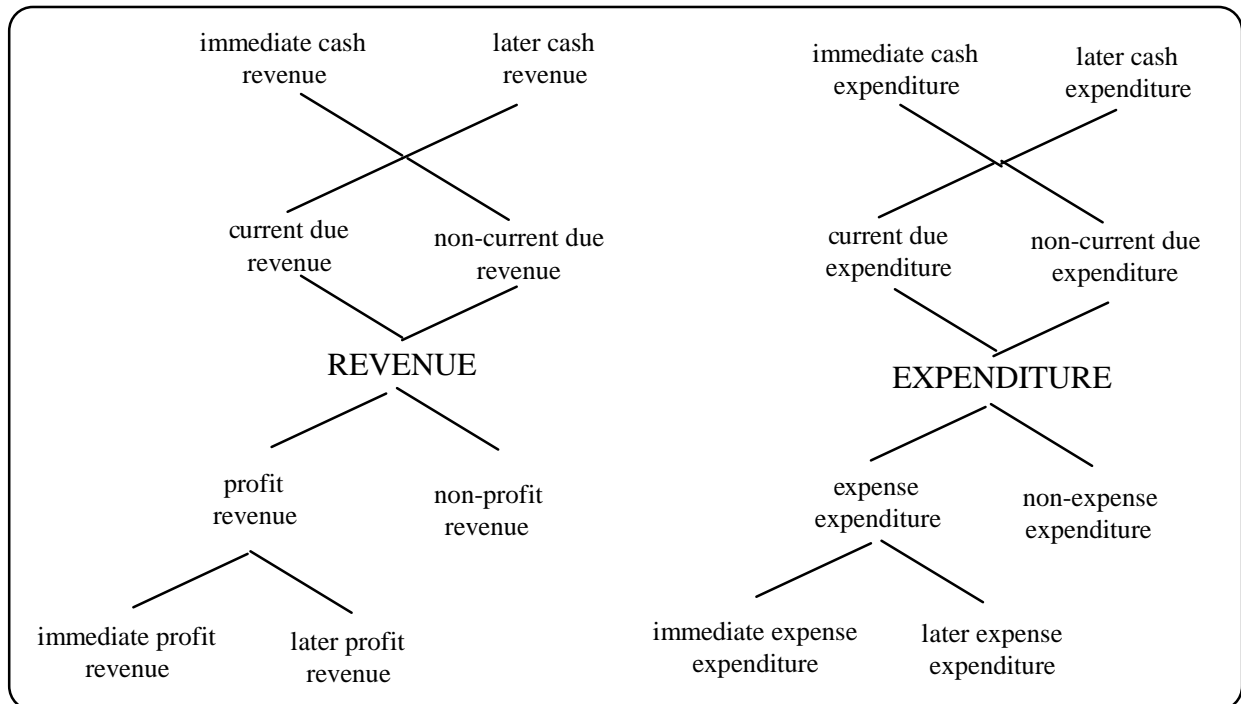


Figure 3: The concepts of 'revenue and expenditure'

Source: Monsen, 2011, Figure 2.1, p. 10; translated from Norwegian

By definition, revenues are claims on cash receipts, while expenditures are defined as obligations for cash payments. In other words, revenues represent immediate or later cash inflows, whereas expenditures represent immediate or later cash outflows (see upper part of the figure 3). Accordingly, for all types of organizations, either public or business the revenues and expenditures will always have *money effects* (Monsen, 2011, p. 2). These money effects influence the money deposit of an organization, in the form of monetary assets minus liabilities. Normally, the movement of cash inflows and cash outflows is recorded into the 'cash account'. The aim is to

calculate how much money has been received and how much has been spent in order to determine how much money remains at the end of the period. It is of a capital importance for organizations to monitor the money effects of revenues and expenditures. We mean organizations especially those in the public sector should not run short of cash when it is needed for the simple reason that it may be costly (by issuing bonds for example).

Beside the money effects, the revenues and expenditures may also have an additional effect, a *profit effect* in the form of immediate or later profit revenue and immediate or later expense expenditures (see the lower part of the figure 3). The profit effects of the revenues and expenditures influence the equity of an organization, in the form of monetary and non-monetary assets minus liabilities. The goal when focusing on the profit effects of revenues and expenditures is to assess how the general activity of the organization is improving. Moreover, contrary to the money effects of revenues and expenditures, the profit effects is very important specially for business enterprises, where there is a causal relationship between the revenues and expenditures (cp. the Matching principle). In addition, because the objective of reporting the profit effects of revenues and expenditures differ from the aim of reporting the money effects of revenues and expenditures, consequently the accounting methods used to report those two effects should differ as well. Therefore, when preparing the accounts for a specific period we face two different accrual principles i.e., a *money accrual principle* and a *profit accrual principle*. These two different accrual principles are discussed using additional concepts generated from revenue and expenditure concepts (see the figure 3).

3.2.1 The money accrual principle of accounting

From the upper part of the figure, we can see various concepts of money effects generated from the revenues and expenditures concepts. These concepts are explained using the payment control procedures more or less common in the public sector. In fact, in the public sector, at least in continental European countries, there is a basic principle saying that *instructions* for cash receipts and cash payments are to be issued by an actor with receipt and payment instruction authority, such as the chief municipal administrative officer. Then cash may be received and cash may be paid, respectively, by another actor with cash receipt and cash payment execution authority, such

as the municipal cashier. Those parts of the revenues and expenditures that have been instructed for cash receipt and cash payment are referred to as '*current due revenue*' and '*current due expenditure*', respectively. The remaining parts of the revenues and expenditures that have not been instructed for cash receipt and cash payment are referred to as '*non-current due revenue*' and '*non-current due expenditure*', respectively. The concepts of '*immediate cash revenue*' and '*immediate cash expenditure*' refer to those parts of the revenues and expenditures that have been received in cash and paid cash, respectively, during the period in question. The concepts of '*later cash revenue*' and '*later cash expenditure*' refer to those parts of the revenues and expenditures that are to be received in cash and paid cash, respectively, in later periods. The explanation above implies that we face three different alternatives for how to accrue the revenues and expenditures with regard to their respective money effects. That is, the revenues and expenditures may be accrued with a view to whether they have been incurred, have been instructed for cash receipt and cash payment, respectively, or have been received in cash and paid cash, respectively. These three alternatives are reflected in the three concepts of the '*incurred principle*', the '*current due principle*' and finally, the '*cash principle*' (Monsen, 2011 p.4).

3.2.2 The profit accrual principle of accounting

As distinct from the upper part of Figure 3, which focuses on the money effects of the revenues and expenditures, the lower part of the same figure focuses on their profit effects, if this is relevant for the organization in question. As mentioned before, business enterprises are the most focusing to the profit effects of revenue and expenditures. Given such an interest, we may first split the revenues and expenditures into two groups: revenues and expenditures having profit effects and revenues and expenditures not having such effects. Revenues with positive profit effects are referred to as '*profit revenue*', while expenditures with negative profit effects are referred to as '*expense expenditure*'. Revenues and expenditures without profit effects are referred to as '*non-profit revenue*' and '*non-expense expenditure*', respectively. Examples here may be loan revenues and instalment expenditures. The profit revenues and expense expenditures may in turn be categorized as follows: The part of the revenues with a positive profit effect during the period in question is referred to as '*immediate profit revenue*', while the part of the expenditures with a negative profit effect during this period is referred to as '*immediate expense expenditure*'.

Examples here may be revenues from sale of pens and expenditures for raw materials used during the period in question for producing the pens. Revenues and expenditures with profit effects in later periods are referred to as *'later profit revenue'* and *'later expense expenditure'*, respectively. Examples here may be revenues in the form of prepayment from customers that will have positive profit effects in later periods and investment expenditures that will have negative profit effects (in the form of depreciation) in later periods.

3.3 Types of accounts

In this section we will discuss two specific accounting theories, namely commercial accounting as opposite to governmental accounting. On one hand, the commercial accounting theory has been developed for use in the business (commercial) sector. Over time it has changed from representing financial (money) accounts to performance (profit) accounts. On the other hand, governmental accounting theory has been developed in form of cameral accounting for use in the governmental sector. As we will see later on in this study, the cameral accounting has also been developed in four steps, and its evolution shows that the original money focus has been supplemented with a performance focus. Further, because business enterprises and governmental administration acquire revenues in different ways (through market-exchange transactions and one way money transactions, respectively), historically there have been differences between the accounts prepared in the business and public sectors (Monsen, 2011). Indeed, the governmental administration like a city treasury (being budget financed), primarily receives revenues in the form of taxes from the inhabitants without giving a direct service in return. Consequently, each year the governmental administration has an obligation to inform (in form of financial annual report) the inhabitants (public), how every single penny of the revenues has been used (accountability). On the other hand, business enterprises (being market financed), receive revenues via capital market, where companies can raise long-term funds. In order to maintain the existing investors and eventually bring new ones, business enterprises (companies) need to remain competitive at the capital market. At the end of each year, companies are prepared the accounts indicating their financial annual situation. As a conclusion, we maintain that in every instance business enterprises and the governmental administration referred to as the *'public sector'* must use different types of accounts because they acquire revenues in different ways.

It is important to remember that our analysis concern only the core part of public organizations. We mean, because public enterprises share exactly the same features with the business enterprises which will not be a subject of discussion in this thesis, consequently the public enterprises also follow out of the scope of this study.

Concerning the situation of public enterprises in Rwanda precisely, we should point out briefly that the government of Rwanda continues to accelerate the process of privatisation of the state-owned companies earmarked. In fact, the privatisation process is aligned to the country's Vision 2020 programme -- a development strategy that aimed to transform Rwanda into a middle-income country by 2020 with the private sector as the engine of growth, job creation and industrialisation. The process began in 1997 with 94 state-owned companies earmarked to go through the privatization process to ensure the entry of innovative investors following the 1994 genocide. According to a privatisation report, as of 2009, some 56 companies had already been privatised and seven liquidated while 19 companies were to be privatised in 2010. ¹³John Rwangombwa, finance minister in Rwanda said that in a bid to fast-track private investment for economic growth, the government is increasingly bowing out of business. "*Privatisation is an easy way of bringing in investors but we also believe private investors run these businesses much better than government,*" he said. For that reason, this study is focused only on the accounting system which is applied within central and local government and which is completely different from the commercial accounting.

3.3.1 Commercial accounting

The commercial accounting method includes two types of accounts (i.e., financial accounts and performance accounts), depending on whether the focus within an organization is on money effect of the revenues and expenditures or whether the focus is rather on profit effect of the revenues and expenditures. Thus an accounting model focusing on the cash effect of the revenues and expenditures is referred to as *financial (cash) accounts*.¹⁴ On the other hand, the accounting model

¹³ <http://www.globserver.com/en/press/rwanda-govt-accelerate-privatisation-2011-04-25>

¹⁴ Monsen, 2008

focusing on the accrual effect of the revenues and expenditures is referred to as *performance (accrual) accounts*.

3.3.1.1 Cash accounts

Historically, single-entry bookkeeping referred to as *merchant's single entry bookkeeping method* was the accounting method used in the business sector (Lee, 1986), to report the *immediate cash effect of the revenues and expenditures* (i.e., immediate cash inflows and immediate cash outflows). Monsen (2008) refers to these types of accounts as *cash accounts*. Also, with single-entry bookkeeping method, only one account « cash account » with two sides i.e., (debit and credit sides) was used. In this manner, the cash inflows were recorded on the debit side, while the cash outflows were recorded on the credit side. Yet, the need to report the performance effect of the revenues and expenditures in addition to the cash effect increases over time. Consequently, the systematic single-entry bookkeeping was developed allowing the preparation of the performance result via the balance accounts (payment side) only.¹⁵ The systematic single-entry bookkeeping referred to as the *merchant's systematic single entry bookkeeping* is based upon the principle of single-entry bookkeeping. Moreover, single bookkeeping entries are entered systematically in the accounts, by separating cash transactions with a performance effect (e.g., wages) from the cash transactions without such an effect (e.g., loans). Furthermore, non-cash transactions with a performance result effect (e.g., depreciations of fixed assets) are added so that the performance result can be reported as the difference between the revenue earned and the expenses incurred.¹⁶

3.3.1.2 Accrual accounts

Because of an increasing profit focus and especially the need for a double-check of all accounting transactions, another bookkeeping method i.e., the *merchant's double bookkeeping method* was developed replacing the merchant's systematic single entry bookkeeping method. According to De Roover (1938), the single- entry bookkeeping method was sufficient for very small one man businesses. Though, with the increasing formation of economic partnerships and with the employment of an increasing number of agents, more sophisticated methods of bookkeeping were

¹⁵ Kosiol, 1967, the original is in German language

¹⁶ Monsen, 2008

needed, being able to calculate the profits of each partner and performance of agents employed.¹⁷ Indeed, the *merchant's double bookkeeping method* allows for reporting *the performance* (accrual) result via both the balance accounts (payment side) and the profit and loss accounts (activity side). (Walb, 1926). Consequently, the dual is more informative presentation of the performance result and constitutes the advantage of the merchant's double-entry bookkeeping compared with the use of a systematic single-entry bookkeeping method where the performance result is reported via the payment side only. In this manner, use of the merchant's double-entry bookkeeping method forms the basis of *accrual accounts*¹⁸. In addition, the merchant's double-entry bookkeeping method is based upon the principle of double-entry bookkeeping which implies that every transaction is entered twice (debit= credit), and two different accounts are used. According to Monsen (2008 a), the commercial accrual accounting using double-entry bookkeeping is the dominating bookkeeping method used around the world.¹⁹ Nowadays, the commercial accrual accounting is the most method used in the business sector. Nevertheless as we will discuss later on in this study, commercial accounting using double entry bookkeeping method gets more and more attention also in the nonbusiness accounting including the public sector.

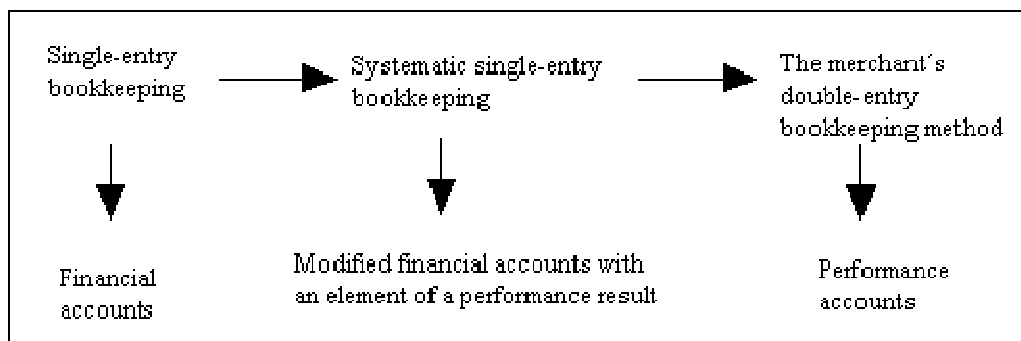


Figure 4: The development of commercial accounting

Source: Monsen 2008, modified version of Monsen (2006, Figure 1, p.362).

¹⁷ De Roover (1938)

¹⁸ Monsen, 2008, p. 62

¹⁹ Monsen (2008a), p. 23

3.3.2 Governmental (public sector) accounting

3.3.2.1 Cameral accounting

Cameral accounting represents a specific accounting theory, developed for use by governmental organizations.²⁰ Historically, cameral accounting has influenced governmental accounting in many countries, particularly in the German speaking countries (Austria, Germany and Switzerland)²¹, as well as the Nordic countries including Finland and Norway.²² Afterwards, following the crisis (1928), the decreasing interest in cameralistics as mercantile theory of economics spread to the corresponding bookkeeping method i.e., the accrual bookkeeping method (Johns, 1951; Wysocki, 1965). Consequently, the commercial accrual accounting continues up to now to be used as the only framework for developments of governmental accounting. Olson et al.(1998, p 462) argue, however, that one should be careful with introducing the accruals-based accounting system in public sector organizations. Several other scholars have also questioned the usefulness of business-like accounting techniques in these organizations (e.g., Bromwich and Lapsley, 1997 ; Falkman, 1997 ; Guthrie,1998 ; Robinson, 1998 ; Monsen 2002). In addition, the fact that the cameral accounting is known to a limited extent beyond the German speaking countries hampers the probable research in that area. Therefore, in his article entitled ‘Evolution of Cameral Accounting’, Monsen presents the evolution of the cameral accounting theory in the hopes of introducing cameral accounting as an alternative framework for further developments of governmental accounting. In his conclusion, he states that it would be advantageous to use an accounting model developed for satisfying the governmental objectives, (i.e., cameral accounting) instead of using commercial accounting, which has been developed for satisfying the performance control(profitability) which is the objective of commercial enterprises. Moreover, as stated by Walb (1926), ‘the introduction of commercial accounting in the total public sector was only an *intermezzo*. It had to fail, because one had not shown sufficient consideration for the special demands, which the public sector makes on an accounting system. One could not remove the disparities totally in the way that had been chosen; rather one had to develop the existing accounting system ‘(Walb, 1926, p.215; translated from German).

²⁰ Monsen, 2008 p.44

²¹ Buschor, E. (1994)

²² Monsen and Näsi, 1996

- **Development of cameral accounting**

According to Walb (1926), the development of cameral accounting can be divided into four different phases.

First phase: simple cameral bookkeeping (ca.1500-1750)

Under the simple cameral (single entry) bookkeeping method, referred to as ‘administrative cameralistics’, one has presumably been satisfied with showing the money revenues and money expenditures in a daybook, where the revenues and expenditures were reported chronologically, without taking into account their different characters (Wysocki, 1965).

Second phase: Introduction of current due accounting (ca. 1750-1810)

The point of departure for the considerations in this phase was the attempt to include not only realized revenues and expenditures (cash or ‘actual’ accounting), but also the future revenues and expenditures (current due accounting) (Wysocki, 1965), Walb (1926). According to Walb (1926), the first person to develop the governmental accounting was the Austrian Johann Mathias Puechberg (1763), in his book entitled ‘*Introduction to improve cameral bookkeeping applied by a cameral sovereignty*’. In 1786 a similar approach was described by the German cameralist J.H Jung. According to him, the chronologically kept daybook (see first phase) and ledger (systematic account) with its material subdivisions were separated in three groups such as: ‘sums payable’, ‘accounts rendered’ and ‘arrears or rests’. Moreover, within the ledger, one developed any typical form of the cameral ledger accounts, which later came to determine the cameral bookkeeping method (Wysocki, 1965). Thus, the second phase of development of cameral accounting was dominated by the ‘*current due*’ concept. Indeed, the current due accounting for the revenues and expenditures specifies the amounts to be paid for the respective purposes, unconcerned if the payment is to occur immediately or later, and the bookkeeping is carried out as soon as it is a fact that a revenue or expenditure has come into being. Therefore, Puechberg has denoted the current due accounting as *obligation*, so that one speaks about revenue obligation and expenditure obligation. This obligation or current due is compared to the actual payment, so that the payment offsets the obligation. If the payment is not carried out yet, a rest comes into being. Any current due must gradually be offset by a corresponding payment. This is a basic rule that has made the

cameralistics to become very formal system, which one at all events has to follow. (Walb, 1926, p.217; translated from German)

Third phase: Further grouping of the cameral bookkeeping transactions (from ca. 1810)

The base of development in this phase was a decree which was issued in Germany in 1810 entitled 'A guidance for state accounting'. This decree explained how to separate performance result-effecting from non-performance result-effecting items. Also, the development of cameralist's on the third phase consisted first of all of a systematic grouping of cameral ledger. Thanks to this grouping, it was possible to prepare the profit and loss account containing accrual accounting information.

Fourth phase: Development of enterprise cameralistics (from ca.1910)

The development of cameralist's bookkeeping method in this phase was much more challenging than the previous three phases. On the one hand there was a crisis caused by the decreasing of interest in cameralistics as a bookkeeping method (Johns 1951; Wysocki, 1965). On the other hand, the demands of new public enterprises led to a series of reforms of cameral bookkeeping methods (Wysocki, 1965). Consequently, practitioners in this phase introduced cameral accounts which allowed them to calculate inventories for expense items, such as goods, stocks of semi finished and finished products and physical assets due to be written off. The aim was to prepare accrual accounting information for these enterprises, i.e create profit and loss accounts and balance sheet accounts for public enterprises (Oettle, 1990).

Thus, during this phase, the cameral accounting method was developed from administrative cameralistics to enterprises cameralistics. Moreover, the attempts to replace the cameralistic's single –entry bookkeeping method with the merchant's double –entry bookkeeping method once more failed; for the simple reason that commercial accounting theory is developed to satisfy other demands than those found in the public sector (Walb, 1926). He stated 'The latest development (of cameral bookkeeping method) is therefore forced to follow the same way as the one followed after the first crisis, namely further development of the existing bookkeeping method ' (Walb, 1926, p. 224 ; translated from German). In addition, according to Wysocki, 1965, the cameralist's

single- entry bookkeeping method is far better than the merchant's double-entry bookkeeping method with regard to adjusting to changes, because the latter method is based upon a very strict method for bookkeeping the transactions and for closing the accounts (Wysocki, 1965, p. 225; translated from German).

- **Administrative cameralistics (ACAM) and enterprise cameralistics (ECAM)**

According to Monsen (2002), two main groups of cameral accounting exist today, namely administrative cameralistics and enterprise cameralistics. Administrative cameralistics (see development phases 1 and 2 above) were developed for use by the core part of a governmental organization which is primarily financed by public (tax) revenues. Enterprise cameralistics (see development phase 3 and 4) on the other hand, were more concerned by governmental enterprises which were more similar to business enterprises (being market financed). The main objectives of the original version of cameral accounting are: financial (money) management and budgetary control i.e., administrative cameralistics should help to control that public (tax) revenues are managed (money management) within the boundaries of a politically adopted budget (budget control). Furthermore, the cameral account has been designed to help carry out the payment control in governmental organizations. Indeed, there is a general rule in the governmental sector saying that no cash can be received or paid by an organizational unit without receiving a previous or simultaneous payment instruction from another organizational unit having this competence (payment control). Concerning the enterprises cameralistics, the main objective was to develop a version of cameral accounting likely to provide the same type of information for the governmental enterprises as what was prepared when using the merchant's double-entry bookkeeping method.

- **The cameralist's bookkeeping method**

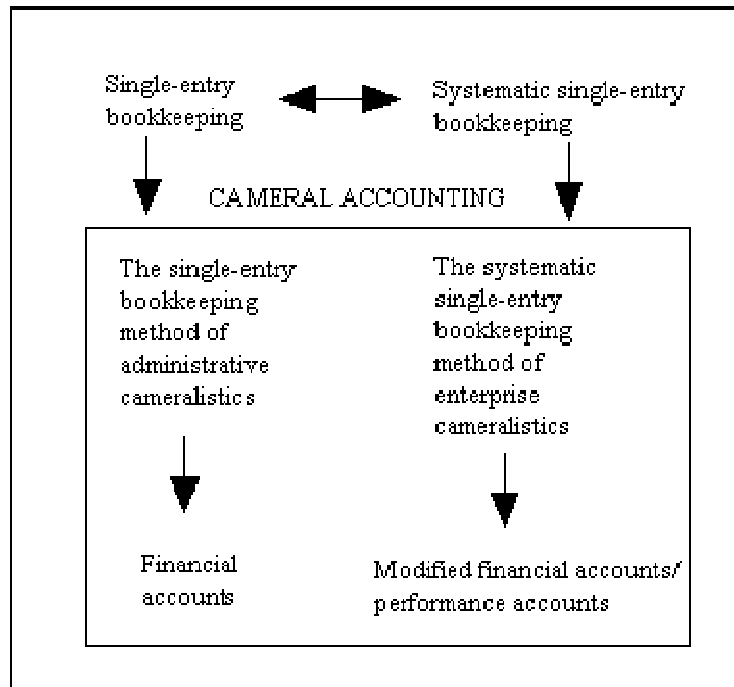


Figure 5: The cameralist's bookkeeping method

According to the chart above, single-entry and systematic single-entry bookkeeping are the main bookkeeping methods used in cameral accounting. However, it consists in developed version which differs from the single-entry and the systematic single-entry bookkeeping methods used in business sector. Hence, the administrative cameralistics use a developed version of single – entry bookkeeping referred to as the single – entry bookkeeping method of administrative cameralistics. The difference between this developed version and the single-entry bookkeeping used in merchant's single-entry bookkeeping is that , in addition to reporting immediate cash inflows and cash outflows (the merchant single-entry bookkeeping), the developed version reports the total revenues and expenditures, i.e., immediate cash inflows and outflows as well as later cash inflows (accounts receivable) and later cash outflows (liabilities). On the other hand, the enterprise cameralistics use a developed version of systematic single-entry bookkeeping referred to as the systematic single-entry bookkeeping method of enterprise cameralistics (see figure above). This version differs from that used in marchant's systematic single-entry bookkeeping because it allows

reporting the performance result via both the payment side and the activity side while the systematic single-entry bookkeeping in merchant's bookkeeping method allows reporting the performance result via the payment side only.

- **The cameral account**

According to Mülhaupt (1987), the cameral accounts as a general rule is single –sided, i.e., it has either a revenue or expenditure side (see below).

	Revenues				Expenditures			
Bookkeeping place	Rests or residual dues b/f (RD)	Current dues (CD)	Actuals (A)	Rests or residual dues c/f (R)	Rests or residual dues b/f (RD)	Current dues (CD)	Actuals (A)	Rests or residual dues c/f (R)

Table 4: The cameral account

Consequently, it is much easier (flexible) to record transactions in the cameral account with single-side than in the commercial account with two sides. The classical cameral account consists of four columns.²³ The rests or residual dues brought forward (RD) are those cash amounts or unfulfilled current dues from the last year that enter the current year's account. The current dues (CD) are those revenues or expenditures which are planned to flow in or out, i.e those revenues and expenditures for which payment instructions have been issued.²⁴ In contrast to the CD column, the actuals (A) show to what extent the current dues have been realized. Regarding the rests or residual dues carried forward (R), they are those cash amounts or unfulfilled current dues which will enter next year's accounts. Two bookkeeping rules (apply separately to the revenue and expenditure sides) steam from this concept of cameral account and must be always fulfilled. The

²³ For deeper information on the cameral account structure and the functions of the columns refer to Mülhaupt (1987) , p.95 and Monsen (2002) .

²⁴ The term « due » in cameral accounting is different from the commercial « debit ». (Oettle, 1990, p. 346). While debit refers to the left side of the commercial account, a due is a way of depicting financial demands and obligations.

first rule is the claim that no transaction is to be accounted for in the (A) column without an earlier or simultaneous (CD) bookkeeping. The second rule is about $R = RD + CD - A$

Summary

Two specific accounting theories have been discussed in this section, namely commercial as opposite to governmental accounting. First, we present briefly two accounts used in commercial accounting method such as financial (cash) accounts which are used when the company focuses on money effect of revenues and expenditures and performance accounts which are used when the focus is on profit effect of revenues and expenditures. Second, we introduced the cameral accounting as an accounting theory developed for use by governmental organizations. In this part, we present the four phases of the development of cameral accounting explaining each phase. Third, we discuss two group of cameral accounting which exist today, i.e., the Administrative cameralistics, which is the original version of cameral accounting versus Enterprise cameralistics, which is the developed version of cameral accounting, and has similar objective as business enterprises. The following point was about the cameralistic bookkeeping. Two accounting methods are used namely single-entry bookkeeping method and systematic single-entry bookkeeping method. Further we present the difference between single-entry and systematic single-entry bookkeeping methods used in cameral accounting and those used in commercial accounting. The last point was about, the accounts concept of cameral accounting. In addition, we present the two rules of cameral accounting which must be always fulfilled.

3.3.2.2 Fund accounting

- Introduction

The theory of fund accounting has first been elaborated on by Vatter (1947), being unsatisfied with the degree of objectivity of both the *proprietary theory* and the *entity theory*.

a) Proprietary theory

According to Kam (1990, p. 302), the proprietary theory point of view dates from the eighteenth century, when a few textbook writers attempted to present the logic of account based on the

“purpose of the firm, the nature of capital and the meaning of accounts from the owner’s viewpoint”²⁵. This strengthens Pacioli’s point of view. He pointed out that the proprietor, the owner, is the centre of attention. All accounting concepts, procedures, and rules are formulated with the owner’s interest in mind. Entries are recorded from the point of view of the proprietor. This is true even for the corporation, which is seen as an instrument by which the stockholders, the owners, seek to achieve their purpose, which is to increase their wealth.²⁶

In short, the proprietary theory takes the standpoint of the *owner*, and represents the net worth of the owner in his business. Whereof the following accounting equation:

$$\text{Assets} - \text{Liabilities} = \text{proprietorship}$$

The assets belong to the proprietor, and liabilities are the obligations of the proprietor. Further, proprietorship is the substance of double-entry bookkeeping (Littleton 1933, and Kam 1990). Without it there is no reason for wanting debits to equal credits.

b) Entity theory

The theory starts with the fact that the corporation is a separate entity with its own identity. By law, the corporation is a separate entity from the owners and has its own rights. As such, it takes possession of the assets and assumes the obligations of the business, not the stockholders. Paton (1922/1962) argues that the entity is a “very real thing”. Because of the gap between the corporation and its owners, accountability to the owners is a significant function for a large corporation (Kam, 1990, p. 305). According to Kam (1990, p. 307) net worth of the proprietor is not a meaningful concept, because the entity is the center of attention. Owners and creditors are seen simply as equityholders, providers of fund. The accounting equation is:

$$\text{Assets} = \text{Equities}^{27}$$

By the fact that the proprietary theory takes the standpoint of the owner, and the entity theory takes the viewpoint of the entity as though it were a person, therefore Vatter was very sceptical to

²⁵ Chatfield, 1977, p. 220

²⁶ Monsen, 2011

²⁷ For more details of 'proprietary theory versus Entity theory (see Monsen, 2011, p. 19-23)

focusing on accounts that are prepared based on such view. He stated: “the weakness in these personalized bases for accounting is that the content of accounting reports will tend to be affected by personal analogies; and issues will be decided not by considering the nature of the problems but upon some extension of personality...” (Vatter, 1947, p.7). (Kam, 1990, p.310) supports Vatter’s point of view by saying that personal points of view do not contribute to the objectivity of accounting information. To overcome the weakness of proprietary theory and entity theory, Vatter (1947) developed the fund theory of accounting for use in the business sector. Unfortunately, the fund theory did not receive any interest to business sector where it was intended to be used. On the contrary, it got much attention in the public (governmental) sector in Anglo-Saxon countries (especially US and England) (see e.g., Kam, 1990. P. 311).

- **Development of Fund accounting**

The point of departure for developing the fund accounting was that Vatter was unsatisfied with neither the proprietary theory nor the entity theory. There was thus need for more objective and more fundamental approach to the problems of accounting than is offered by the two former theories. Vatter starts by explaining the fund theory and according to him, “*A fund.... is a unit of operations or a centre of interest; and in a completely nonpersonal sense, the fund is the accounting entity.*”(Vatter, 1947, p.12). He continues by presenting and defining the accounting terminology used namely,

a) Assets

Contrary to the most popular notions of assets as “values in monetary terms”, Vatter defined the assets as “economic in nature”. According to him, assets are not physical things, legal rights, or money claims, but ‘service potentials’.

b) Equities

Concerning the “Equities”, Vatter (1947) points out that the entity theorist’s view is that equities are “claims against the assets”, while the proprietary theorist would insist that they are “obligations of the proprietor (liabilities) and the ownership rights of the proprietor (net worth)”. For the fund theory both of these views are, however rejected by Vatter, who argues that “equities are viewed rather as restrictions that apply to assets in the fund (Vatter, 1947, p.19).

c) **Double- entry bookkeeping method**

Vatter also pointed out that the fund theory- like the proprietary and entity theories uses the principle of “**double – entry bookkeeping**” even though the reasons for using this principle differ between the three theories.²⁸

- **Fund accounting in the governmental sector**

As mentioned before, the fund accounting theory got much attention in the governmental sector, though it was intended to be used in the business sector. Various reasons can explain this phenomenon: The first reason lies in the fact that the fund accounting theory focus *on the service potential of the assets*, not their income (i.e. profit) potential. In the other words, assets are acquired in order to contribute to increase service production, from which the users will benefit; they are not acquired in order to earn a profit. And it is in the governmental sector where the focus is precisely on service delivery and not the profit earning, whereas the profit is the focus in business (commercial) sector; either for the proprietor (the proprietary theory) or for the organization itself (the entity theory).

Recall that the profit earning for the period is the difference between the revenues and expenses. Accordingly, since we do not find an income (profit) focus in the governmental sector, there is no need to focus on revenues and expenses; rather there is a need for another focus. Henke stated (1983):” Because nonprofit organizations have no profit objective...., accountants have turned to the concept of *dollar accountability* in defining the financial reports for some of these organizations. When we use this concept of **dollar accountability**, a balance sheet is employed to show the resources available to the organization, and a statement of revenues and expenditures shows the flows of liquid resources. The balance sheet shows the spendable (appropriate) resources available to the organization, and the statement of revenues and expenditures shows the flows of spendable (appropriate) resources into and out of the organization.”(Henke, 1983, p.6; italics in the original)

²⁸ For more explanations of terminologies used in fund accounting (see Monsen , 2011 p.38)

Indeed, the concept of dollar accountability implies the **money perspective**, and when analyse the operations of organization from a money perspective (dollar accountability) , the main objective is not to analyse the results of operations but, to analyse whether or not the financial resources have been acquired and spent in accordance with decisions made i.e., the budget decision. Recall that, a budgetary decision represents the authority to use and receive money, something which implies that the focus on “flow of funds” within the fund theory is especially appropriate for governmental organisations. The link between budgeting and accounting is therefore very important in governmental organization, and it separates governmental organisations (cp. budget – linked organisations) from business enterprises (cp. Market-linked organisations). Because the budget represents, among other things, **restrictions on the use of financial resources**, this means that the fund accounting theory with the balance equation “**Assets = Restrictions**” on assets”, is more applicable in the governmental sector, than the proprietary and entity theories.

Further, by the fact that Vatter (1947) focused on business enterprises and not on governmental organisations when he developed the fund accounting theory, he limited his discussion of the fund accounting theory to focusing only on **accounting figures**. Thus, **budgetary figures** did not contain in his discussion. It is later, in the process of the adaptation of fund theory of accounting to the governmental sector, that the fund theory has been developed also to incorporate budgetary data. However, not all Anglo-Saxon countries were willing to include the budgetary figures into the fund accounting, because the procedure had advantages as well as some disadvantages. The advantage of adding budget figures to accounting within the framework of double- entry bookkeeping is continuously and systematically to compare budget and accounting figures, keeping a continuous overview of unused budgetary financial resources. The disadvantage of this procedure is, however, that the bookkeeping becomes complicated; it is easier and more understandable if the accounting only contain accounting figures (such as in England) and the budget contains budget figures. Based on this, one can compare budget and accounting figures by presenting the figures side by side in separate financial statement. At the end, only in the US, budget figures are added to the accounting figures when carrying out the bookkeeping. In England the accounts contain only accounting figures, not also budget figures.

- **The double-entry bookkeeping of fund accounting**

As explained above, budgetary data (budgetary figures) are included within the double entry bookkeeping method of fund accounting only in the US. As a consequent, we have two variants of this double – entry bookkeeping method, which both form the basis for the preparation of money accounts. There is the double-entry bookkeeping method of fund accounting (accounting figure) on one hand and the double-entry bookkeeping method of fund accounting (budget and accounting figures) on the other hand.

3.3.2.3 New public management

Ages ago, accounts in business sector were prepared, reporting the *profit effects* of the revenues and expenditures, while in the public sector; accounts were prepared reporting the *money effects* of the revenues and expenditures. In later years, however, and resulting from transferring business management ideas to the public sector, referred to as *New Public Management* (NPM), traditional governmental accounts are in the process of being replaced by modified profit accounts, influenced by profit accounts prepared in the business sector.²⁹ Compared to other public management theories, NPM is more oriented towards outcomes and efficiency through better management of public budget. It is considered to be achieved by applying competition to governmental organisations, as it is known in the business enterprises, emphasizing economic and leadership principles. New public management addresses beneficiaries of public services much like customers, and conversely citizens as shareholders.³⁰

In this study, we will not discuss the public management theories. The NPM is mentioned only in order to introduce the two concepts namely, cash basis of accounting and accrual basis necessary in this study. Indeed, the wave from TPM to NPM is led by the International Public Sector Accounting Standards Board (IPSASB), which is a Board of the International Federation of Accounts (IFAC) formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). These standards are modified versions of international

²⁹ Monsen, (2011) . Preparing Money Accounts for the Governmental administration: Empirical and theoretical argumentation

³⁰ Aristovnik, Aleksander & Seljak, Janko, 2009. "Performance budgeting: selected international experiences and some lessons for Slovenia," MPRA Paper 15499, University Library of Munich, Germany

accounting standards for the preparation of profit accounts in the business sector, referred to as *International Financial Reporting Standards* (IFRS) (see e.g., Monsen, 2010). Moreover, IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

- **Cash Basis Accounting**

The cash basis of accounting recognizes transactions only when the associated cash is received or paid by the entity. The measurement focus in the financial statements prepared on cash basis is balances of cash and changes therein. Thus, primarily financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. To this end, we saw that the single entry bookkeeping is an appropriate method to be used. The principal advantages of the cash basis of accounting are that the Cash basis accounting is a simple and inexpensive method to implement and utilize. It also provides an accurate representation of cash flow.

- **Accrual Basis Accounting**

This basis of accounting recognises transactions at the time they occur regardless of the timing of the associated cash flows. This means that the financial statements prepared under the accrual basis of accounting include not only the transactions settled in cash but also outstanding liabilities and provisions for probable liabilities. Besides, under this basis of accounting non-current assets are capitalised and depreciated over their estimated useful lives, prepaid expenses are recorded as assets until the related services/goods have been received, in which case those assets are written off. And again, as we saw previously, the double – entry bookkeeping method is the accurate accounting method to be used in this case.

CHAPTER 4: FINANCIAL ANNUAL REPORT OF RWANDA

In chapter one, we describe briefly the country of Rwanda: its geographical position, its history, its economic situation, its development challenges as well as its governmental accounting. In this chapter, we will rather describe our case study i.e., the financial annual report of Rwanda government. Further, to get inspiration from previous researchers, we will review some empirical financial annual report analysis.

4.1 General structure of the annual report

The annual report of the government of Rwanda is for two consecutive years namely, the year ended 31 December 2007 and the following year ended 31 December 2008; and consists of a compiled document of 16 pages. It starts with table of contents and the list of acronyms. Thereafter, the GoR consolidated statement of 'revenues and expenditures' as well as consolidated statement of Financial 'Assets and Liabilities respectively are summarized in form of tables. Both tables include among other features, the codes referred to as 'notes'. Fred Mujuni, the Accountant General who signed the consolidated Financial Statements advises that the annual report should be read in conjunction with the accompanying notes. The annual report contains 17 notes, numbered from 1.3.1 to 1.3.17. Example:

Numerical codes	Notes
1.3.1	Reporting entity
1.3.2	Basis of preparation
1.3.2.1	Statement of compliance
1.3.14	Account receivables

Table 5: The financial statements accompanying notes (see appendix, from p.6)

See appendix, from p. 6

Next, the Consolidated Statement of 'Revenue and Expenditure' for the Year Ended 31 December 2008 is presented.

		Financial Year ended 2008	Financial Year ended 2007
	Note		Frw
REVENUES			
<i>Tax Revenues</i>			
Fiscal revenue	1.3.3	328,549,252,312	237,628,896,134
Non Fiscal Revenues	1.3.3	15,967,869,129	12,742,880,492
Road levy and fuel taxes	1.3.4	7,438,572,743	6,657,691,020
<i>Investments</i>			
Dividends from Public Enterprises	1.3.5	8,544,911,650	4,491,767,193
Proceeds from Privatization	1.3.6	14,944,908,136	25,539,578,108
<i>Borrowings</i>			
Net proceeds from Sale of Treasury of Bills	1.3.7	-	5,979,900,000
Net proceeds from Sale of Treasury Bonds	1.3.7	14,207,892,928	
Proceeds from domestic borrowing (CSR)	1.3.8	-	2,104,562,962
<i>Proceeds from external resources</i>	1.3.9	428,426,567,969	325,313,425,600
<i>Trading Activities</i>			
Internally Generated Revenues	1.3.10	66,313,076,632	41,315,655,033
<i>Other income</i>	1.3.11	4,823,911,269	3,755,207,293
TOTAL REVENUES		889,216,983,769	665,529,563,836
EXPENDITURES			
Wages and Salaries		(195,665,495,138)	(160,575,645,265)
Purchase of goods and services		(245,819,907,901)	(214,632,283,494)
Arrears & Other Exceptional expenses		(71,059,225,624)	(46,006,637,034)
Repayment of debt		(28,554,167,795)	(28,690,007,240)
Repayment of Treasury Bills		(28,260,332,056)	(1,615,386,264)
Capital expenditure		(203,117,718,425)	(170,527,518,121)
Investment (BK Shares)		-	(2,104,562,962)
Transfers abroad		(18,483,110,341)	(6,454,987,600)
Other transfers & payments		(74,987,612,185)	4,763,809,341
OTR: Other payments		(10,816,022,045)	(35,712,215,079)
TOTAL EXPENDITURES		(876,763,591,509)	(661,555,435,726)
Net Surplus / (Deficit)		12,453,392,260	3,974,128,110
Fund balance at beginning of year		141,824,612,538	137,850,484,428
Opening balance adjustment	1.3.16	(6,320,167,023)	
Adjusted opening balance		135,504,445,515	137,850,484,428
Increase / (decrease) during the year		12,453,392,260	3,974,128,110
Fund balance at end of year	1.3.17	147,957,837,776	141,824,612,538

Table 6: The consolidated Statement of Revenue and Expenditure for Year Ended 31 December 2008

The major information exhibited from the table above, is the variation between two years (2007 and 2008) of 'fund balance at end of year'. The fund balance at end of year is obtained from the difference between the total revenues minus the total of expenditures. The net surplus obtained is added to the fund balance at beginning of year, and to the increase/ (decrease) during the year in order to obtain the final result which is: *Fund balance at end of year*. In addition of consolidated statement of revenues and expenditures, the main overview also represents the statement of Financial Assets and Liabilities which share the same presentation structure as the statement of revenues and expenditures (See below).

Consolidated Statement of Financial Assets and Liabilities as at 31st December 2008

		Financial year Ended 31.12.08	Financial year Ended 31 .12.07
	Note	Frw	Frw
Current Assets			
Bank Balances	1.3.12	147,307,830,944	132,636,420,833
Cash Balances	1.3.13	369,150,096	1,601,496,204
Accounts Receivables	1.3.14	40,862,347,102	29,637,266,914
		188,539,328,142	163,875,183,950
Less: Financial liabilities			
Accounts Payables	1.3.15	(40,581,490,366)	(22,050,571,413)
		(40,581,490,366)	(22,050,571,413)
Net Financial assets		147,957,837,776	141,824,612,538
Representing			
Accumulated surplus (Deficit) from previous years		141,824,612,538	137,850,484,428
Opening balance adjustment		(6,320,167,023)	-
Net surplus / (Deficit) for current year		12,453,392,260	3,974,128,110
Total closing balances		147,957,837,776	141,824,612,538

Table 7: Consolidated Statement of Financial Assets and Liabilities as 31st December 2008

In the contrast of revenues and expenditures statement which represent the money financial statement, the statement of financial assets consist of the financial claims and the financial obligation (ex. Loans) respectively, which were outstanding on the date of the closure of the fiscal

year; and are recognized as assets and liabilities for that specific fiscal year. Moreover, the informations provided in the both tables are too summarized, i.e., the two tables present the final picture of the consolidated financial statements or the "main overview". The detailed components forming the consolidated Financial Statements are summarized on page 3 of the annual report (see appendix). Hence, as a consequence of the politic of decentralization in Rwanda probably, revenues are collected and expenditures are paid via 4 sections, namely Central Treasury & RRA revenues operations (section 2), Central Government institutions (section 3), Local Government institutions (section 4) and Development projects (section 5). In addition, Revenues and expenditures are classified in three fundamental clusters such as: Operational revenues/expenditures, financial revenues/ expenditures and Investment revenues/ expenditures. During our analysis process however, we decide to refer only to the main overview of the annual report and not to the detailed components of the financial statement.

4.2 Basis of accounting system

At the glance, the financial statements report of the Rwanda fulfils all features/ requirements of the *fund accounting system*. As mentioned before, the fund accounting is the most accounting system used by governmental organizations in the Anglo-Saxon countries. Practically, Rwanda is not among Anglo-Saxon countries. Hence, this phenomenon can be explained by the fact that after genocide event which took place in Rwanda in 1994, the majority of leaders in Rwanda are those who grow up and studied in neighbour country Uganda which is a former colony of Great Britain (GB). Further both USA and the GB (particularly GB), have played a major financial capital role in the process of rehabilitation of the Rwanda after genocide. So Rwanda receives various help in form of financial loan and gift from those two countries. Consequently, it is logical for USA and GB as principal donors to follow up how the financial assistance attributed to Rwandan are managed. The easy way to control the funds management and the *accountability* in general is by applying in Rwanda the same accounting system as the one which is used in governmental sector back home that is "fund accounting". In addition, by the fact that the financial annual report of Rwanda contain only accounting figures, not also budget figures exactly like in England, we can conclude that the financial annual report in Rwanda follows the same fund accounting method as England when reporting the financial statements. This point is discussed in more details in the following chapter.

CHAPTER 5: ANALYSIS OF FINANCIAL STATEMENTS OF RWANDA

5.1 Views from previous case studies of governmental accounting

Before analysing the financial statements of the government of Rwanda, let's us first present the two empirical and theoretical argumentations which have inspired this study. Our first inspiration is provided by Monsen 2011, when discussed the preparation of money accounts for governmental administration. He discussed the case of the Bergen project (BP) which was carried out jointly in the 1980s (for 1984-1986). One of the purposes of the project was to develop and prepare a new annual report for the city treasury (i.e., the governmental administration) according to wishes and information needs of the politicians and officers in the local government. Interviews with politicians in the City of Bergen (Norway) revealed that there was a desire for developing a more informative financial statement for the local government (Olsen, 1987). The goal was to develop a new financial statement for the governmental administration, reporting the acquisition and spending of financial resources, referred to as a 'funds flow statement' and which is simple to understand.³¹ On the other hand however, the interviews did not reveal any interest in the reporting of profit information. Therefore, Monsen et al., suggested the consideration of 'administrative cameralistics' as an alternative account which can assist the governmental organisations to accomplish their principal objective, namely: money management, budgetary control and the payment control. As a conclusion, the combination of empirical and theoretical arguments supports the argumentation for the preparation of money accounts for the governmental administration.

Our second inspiration steams from the case study of financial statements of the cities of Stuttgart (Germany) and Liverpool (UK) respectively. The former is making use of cameral accounting as applied in continental Europe, whereas the latter is applying UK fund accounting. As a conclusion, the discussion of the case study revealed that while the financial accounts of Stuttgart

³¹ Monsen, 2011 p. 7

performed well for the objectives of cash management, budgetary control, and payment control, the accounts of the city of Liverpool were dominant with respect to measuring profitability.³²

5.2 Consolidated financial statements of the government of Rwanda

The consolidated financial statements we are analysing have three principal parts. The first part referred to as the “main overview” includes the statement of revenue and expenditure for the year ended 31 December 2008 and the statement of assets and liabilities for the same year. The second part presents the detailed consolidated financial statements by cluster, and the last part of the annual report presents the accompanying notes to the consolidated financial statements. To analyse the financial statements, we will focus on the first part, and last parts i.e., the main overview and the accompanying notes.

5.2.1 Main overview

As mentioned above, the main overview of the financial statements includes the statement of revenues and expenditures as well as the statement of assets and liabilities for the year ended 2008. Precisely, the statement of revenue and expenditure represent the acquisition and spending of financial resources for the fiscal year ended in December 2008, whereas the statement of assets and liabilities represent those parts of revenues and expenditures which were instructed for cash receipt and cash payment respectively, but which for different reasons could not be received and paid in the year 2008. In other words, the main overview represents the current due revenues and the current due expenditures respectively (see the upper part figure 3). And the current due revenues and current due expenditures have two parts namely, immediate cash revenues and immediate cash expenditures respectively (see the left sides of figures below) and on the other hand, later cash revenues and later cash expenditures (see right sides of the following figures).

³² See the master thesis submitted by Moritz Lukas (fall 2008). International Governmental Accounting. An international Theory-Backed Case Study of Two Municipalities. The thesis is present at NHH library

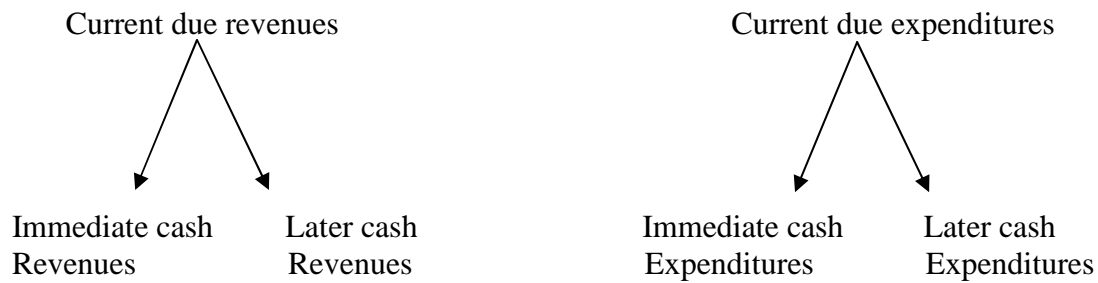


Figure 6: Financial statement, current due revenues and current due expenditure

5.2.2 Accounting methods

In this section, the two bookkeeping methods are reviewed namely, single-entry bookkeeping versus double-entry bookkeeping methods. And we argue for which of the two bookkeeping methods is appropriate to report the money effects of revenues and expenditures. An additional bookkeeping method “systematic single-entry bookkeeping method” is also discussed.

As mentioned in the previous section, the financial statements of the Rwanda government represent the money effects of revenue and expenditure. Monsen 2008, referred to *financial (cash) accounts*, an accounting model focusing on cash effect of the revenue and expenditure. And historically, *single-entry bookkeeping* referred to as merchant’s single entry bookkeeping method was the accounting method used in the business sector (Lee, 1986), to report the immediate cash effect of revenues and expenditures. In public sector, through the cameral accounting, the single-entry bookkeeping was also the accounting method used to report the money effects of revenues and expenditures.

We mean, since the financial statements of the Rwanda government report the money financial statement, the *single- entry bookkeeping* should be the accounting method to use when preparing the financial statements. However, the MINECOFIN on the behalf of the Rwanda government decides to go from the single- entry bookkeeping method to the complicated *double-entry bookkeeping* method. The reason in so doing was that, I quote: “single –entry bookkeeping simply focusing on reporting execution of budget appropriations and source of funding. No auditable consolidated financial statements of Government”.

The double-entry bookkeeping on the other hand, aiming at producing a full set of auditable consolidated financial statements consisting of Statement of Financial Performance, Statement of Financial Position, Statement of Cash flows, and associated explanatory notes. Besides budget execution reports, financial reporting includes assets and liabilities.³³

Yet, as pointed out in chapter 3, there are business enterprises but not governmental administrations which are focusing to the financial performance or the profit effects of revenues and expenditures. Recall that, the profit effects of revenue and expenditure influence the equity of an organization, in the form of monetary and non-monetary assets minus liabilities. And, since the financial statements in our disposition represents only money financial statements, we conclude that the financial statements should be recorded using the single-entry bookkeeping method. At the same time however, we suggest an interview with those in charge of preparing financial statements of the Rwanda government in order to reveal whether or not there is any interest in reporting of financial performance information.

Moreover, to the best of our knowledge, the government of Rwanda continues to accelerate the process of privatization of the state-owned companies earmarked. One may conclude easily that the goal of the Rwanda government in the privatization process is to get rid of all public enterprises and maintain only the core part of governmental organizations. Once again, the question is why using the complicated double-entry bookkeeping method to report the cash flow statement? Especially now, it is clear that the tendency in the future is to maintain only the core part of governmental organizations. Recall that, the main objective of the core part of governmental organizations referred to as centre government is to report how the local government had acquired and spent its financial resources.

Further, assuming that the government of Rwanda desires at all costs to report the financial performance of revenue and expenditure, in this case, the *systematic single-entry bookkeeping* could be much more suitable bookkeeping method for use in financial (cash) accounts than the double-entry bookkeeping method. Because the systematic single-entry bookkeeping method is a developed version of the single-entry bookkeeping method, based upon use of the principle of

³³ Manual of Government Policies and Procedures Volume 3

single-entry, and allowing the preparation of performance result via the payment side (balance accounts) only. (See figure 4). Unfortunately, the systematic single-entry bookkeeping method does not exist in the accounting literature applied in Rwanda.

5.2.3 Basis of preparation

From the three basis of accounting namely, the cash basis of accounting, accrual basis of accounting and modified cash basis of accounting, in this section, we discuss what is the impact has one or another basis of accounting on preparation of financial statements.

As stated in the annual report, the financial statements and accounting policies adhere, to the extent possible, to the International Public Sector Accounting Standards (IPSAS), *cash basis of accounting* (see appendix p.6). Earlier in this study, we point out that the cash basis of accounting recognizes transactions only when the associated cash is received or paid by the entity. On the other hand, the accrual basis of accounting recognizes transactions at the time they occur regardless of the timing of the associated cash flows. Having said that, Rwanda government recognizes, whilst the accruals basis is the ideal, it is not currently feasible due to various reasons. On the other hand, a pure cash basis would provide inadequate information especially as regards expenditure budget management. Consequently, government has made the decision to adopt a “modified cash basis” as defined by Article 2 (20) of the Ministerial Order 002/07.³⁴

Thus, in the context of the regulations applied in Rwanda, modified cash basis of accounting means that financial transactions are recognized in the books of accounts as follow:

- Generally, transactions are recognized only at the time the associated cash flows take place;
- The expenditure on acquisition of fixed assets is not capitalized- thus fixed assets are written off on acquisition and the wear & tear (depreciation) of those assets is not recorded in the books of accounts;

³⁴ The Republic of Rwanda. Manual of Government Policies and Procedures : Financial Management & Accounting, Volume 3 : Books of accounts, Bookkeeping and Accounts. (November, 2006).

- Prepaid expenditure/advances is written-off during the period of disbursement;
- The recognized “modification” is as follow:
 - a) Invoices for goods and services which are outstanding on the date of the closure of the fiscal year are recognized as liabilities for that specific fiscal year.
 - b) Loans and advances are recognized as assets/liabilities at the time of disbursements and related interest is recognized only when disbursed. Interest payable on public debt is accrued.
 - c) Book balances denominated in foreign currencies are converted into the Rwanda franc at the rates of exchange ruling on that date issued by the National Bank of Rwanda. The associated exchange losses are recorded as ‘recurrent expenditure’ while the exchange gains are recorded as ‘recurrent revenue’.³⁵

On the other hand, Monsen (2008) argues for and refers to systematic single-entry bookkeeping as a bookkeeping method forming the basis of *modified financial (cash) accounts* with an element of a performance (accrual) result. Thus, since the systematic single- entry bookkeeping method does not exist in the accounting literature applied in Rwanda, as a consequent the only way to report the statement of financial performance in addition of cash flow statement is by using the double-entry bookkeeping method of fund accounting.

All in all, as Zimmerman (1977), points out a major discussion in fund accounting today is the question whether to make use of the “modified cash accrual basis” or the “full accrual basis”. The former implies that expenditures are accounted for when they are contractually due, while revenues are recorded when cash is actually received. The later makes complete use of the concepts of revenues earned and expenses incurred.³⁶

³⁵ idem

³⁶ Zimmerman (1977), p. 112

5.2.4 Types of accounts

Two types of accounting are used when preparing financial statements in governmental (public) sector namely, fund accounting and cameral accounting. And fund accounting like cameral accounting has the focus on money effects of revenues and expenditures (see figure 3). The next discussion is about reviewing the advantages versus disadvantages of using each accounting model and then, to judge whether the government of Rwanda should continue with the fund accounting or if it should consider the cameral accounting as alternative to replace the fund accounting.

- **Fund accounting**

As pointed out in the previous chapter, the fund accounting theory got much more attention in the governmental (public) sector, especially in the Anglo- Saxon countries, though it was intended to be applied as an alternative of proprietary theory and entity theory, in the private (business) sector. One of the reasons which explained this phenomenon was the fact that fund theory of accounting is based on “service potential of the assets”. We mean, by redefining the assets as “service potential instead of “values in monetary terms” Vatter (1947) shifts the focus of fund theory of accounting from being profit oriented to be the service potential oriented. Indeed, the fund theory assumes that the assets are acquired not in order to earn profit, but rather in order to contribute to increasing service production, from which the users will benefit. And contrary to business enterprises which focus first of all on maximization of profit, service delivery is the principal focus in governmental organizations. Thus, for governmental organizations, the fund theory of accounting was an accounting method which will help them to report their principal mission, which is delivery of services. Therefore, it is understandable that the fund theory of accounting was attractive to the governmental organizations.

On the other hand, in order to adapt the fund theory of accounting, in the governmental sector; some adjustments were necessary. We mean, the original version of fund accounting was developed in order to report the income (profit) effects of revenues and expenditures (see figure 3), and now that we do not find an income (profit) focus in the governmental sector, there is a need to find a new focus of fund theory of accounting. According to Henke (1983), the dollar

accountability was the focus to replace the income focus of fund theory. And when we analyze the operations of organizations from money perspective (dollar accountability), the focus is to analyze whether or not the financial resources have been acquired and spent in accordance the budget forecasted (planned). We maintain that the money perspective was the new focus of the fund theory. On the other hand however, Vatter decided to keep the principle of double entry-bookkeeping as a bookkeeping method to be used in fund theory.

We mean, with respect to the fund equation: assets = restriction on assets, we do not think that a double-entry bookkeeping method is necessary to report that the financial resources have been acquired and spent in accordance with the budget. Rather, as discussed earlier in this study, single-entry bookkeeping method or if necessary, systematic bookkeeping method are the two bookkeeping methods recognized historically to report the money effects of revenues and expenditures (see figure). Therefore, as it will appear from the explanation below, there is another type of accounting, i.e., "the cameral accounting" which is able to report the money accountability in the governmental organizations by using the single-entry bookkeeping method.

- **Cameral accounting**

Above we saw that the fund theory of accounting was originally developed by Vatter in order to be used in business sector. And it is only later, when it is discovered that the fund theory did not get attention in business sector that, it was adjusted to be adapted to the governmental sector. The cameral accounting on the other hand, represents a specific accounting theory, developed for use by governmental organizations. In addition, the focus of the original version of cameral accounting referred to as "administrative cameralistics" like fund accounting was on money perspective (accountability). Moreover, the cameral account uses the principle of single-entry bookkeeping method to report the money effects of revenues and expenditures (see figure 3). We maintain that the administrative cameralistics performs better than the fund accounting, to reporting money effects of revenues and expenditures in governmental sector. Another advantage of using the cameral accounts in the governmental sector is that apart from, the money management and budgetary control, the cameral accounts allow also the payment control in the governmental organisations. As a conclusion, we support the idea of Monsen (2008), that for

further developments of governmental accounting in general and particularly in Rwanda, the cameral accounting should be taken into consideration as an alternative framework to the fund accounting.

Summing up

Above, we discuss two types of accounting used in the governmental sector namely, fund accounting and cameral accounting. As pointed out, the fund accounting is most popular in Anglo-Saxon countries (USA & Canada), which was developed by Vatter (1947) for use in business sector, as an alternative to the proprietary (theory) and entity (theory). Unfortunately, the fund theory of accounting did not get much attention in the business sector, rather the fund theory has being attractive to the governmental sector. Moreover, because the basis of fund accounting was the service potential of the assets, implicitly this change the focus of fund accounting from being profit oriented to money accountability oriented. Therefore some adjustments were necessary to adapt the fund accounting theory originally developed for business sector, to the governmental sector. Though the focus of fund accounting was on money perspective (accountability), however, Vatter (1947) decides to keep the principle of double-entry bookkeeping as the bookkeeping to use when reporting the fund flow statement.

On the other hand, the cameral accounting represents a specific accounting theory, developed for use by governmental organizations. The cameral accounting has historically influenced governmental accounting in many European countries, particularly those of the German speaking. Over time the cameral accounting has been developed from administrative cameralistics to enterprise cameralistics. The administrative cameralistic is the original version of the cameral accounting, and it was developed for use in the core part of the governmental organizations.

Moreover, as pointed out, governmental organizations have three principal objectives namely, money management, budgetary control and the payment control. And the cameral accounts are allowing the governmental organizations to accomplish each of these objectives. For instance by recording a transaction in the different columns of cameral accounting, either on revenues side or expenditures side (see table 4), it is very easy if not automatic to know how much money have to be received or paid respectively based on instructions received from the authority competent (see

“CD-columns” table 4). It is also easy to find out how much money have been received or paid respectively, thus money management (see “A”- columns” on the table 4). If for various reasons, all revenues or expenditures respectively could not be paid in the given period, the cameral accounts will present the amounts to be forward to the next period (see “R-columns “ of table 4). In their turns, these rests from the previous period will be recorded in the “RD-columns” as the opening balance to the next period (see the table 4). At the end of a given period, either every month, three months, six months or a year, it is very simple to prepare a financial report explaining how much money should be received or paid respectively, how much have effectively been received or paid, and how much money which were instructed for reception or payment but which have not been executed. In addition, the most advantage of cameral accounting is the fact that, it uses the single-entry bookkeeping method with only one side (see example table 4).

Further, as explained above, there is the principle of single-entry bookkeeping which facilitates the record and interpretation of the transaction’s information recorded in the cameral accounts. We mean, historically even for business enterprises, the single-entry bookkeeping method has proved to be the appropriate method to report the money effects of revenues and expenditures. And we saw that governmental organizations are particularly focus on money perspective or accountability of financial resources. Therefore, the single-entry bookkeeping method is exactly the right bookkeeping method for use in the governmental sector instead for the double-entry bookkeeping.

Another advantage to use the single-entry bookkeeping method lies in the fact that it is flexible to use. We mean, given that the accounting science is not stagnant but change with time, a flexible accounting method is indispensable to record the possible modifications. And when the single-entry bookkeeping is in use, changes can be adapted without any difficult. However, we saw that the financial statements of the government of Rwanda are recorded using the fund accounting, and that the double-entry bookkeeping is the only bookkeeping method used by the fund theory of accounting. Consequently, the principle of double-entry bookkeeping is also applied in Rwanda to report fund flow statements. Below, the case of Rwanda is discussed in details.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Summary

Now that we have presented the two different types of accounting used in governmental sector namely, fund accounting and cameral accounting, the next step is to argue for which one we think feats best in the case of Rwanda financial statements. Also, based on the financial annual report we analyse, the financial statements of the government of Rwanda are recorded using the fund theory of accounting. And as mentioned before, when the fund accounting is in use, the transactions are recorded using the double-entry bookkeeping. Thus, we conclude by saying that the financial statements of the government of Rwanda are prepared using the double-entry bookkeeping method. Recall, however, that the double-entry bookkeeping referred to as the merchant's double-entry bookkeeping method, is the bookkeeping method used in business enterprises to report the profit effects of revenues and expenditures, i.e., revenues incurred and expenditures incurred, which include both monetary and non-monetary transactions. On the other hand, our analysis focus only on the money effects of revenues and expenditures. As a conclusion, we maintain that reporting the fund flow statements using the double-entry bookkeeping method does not help but complicates the procedure.

Another feature we find in the financial statements of Rwanda lies in the fact that the financial statements does not contain budgetary figures like in US , but only present the accounting figures, we conclude that the fund accounting used in Rwanda is following the fund accounting version applied in England. In this thesis we presented the advantage of adding budgetary figures to accounting (continuously and systematically comparison of budgetary and accounting figures), we also mentioned the disadvantages of the procedure namely, the fact that the bookkeeping becomes much more complicated. By the fact that the government of Rwanda do not manage to publish the financial statements in time, we maintain that, actually the financial statements do not need to include the budget figures. We encourage that the accounting and budgetary figures should be presented side by side in separate financial statement. And we appreciate the presentations of the accounting figures of two consecutives years, in our case: the financial year ended 31 December

2007 and the financial year ended 31 December 2008. In this way, it is possible to assess the downward versus upward movement of fund statements and eventually express the explanations.

Furthermore, as stated in the financial annual report, the financial statements and accounting policies adhere to the extent possible, to the IPSAS cash basis of accounting. Whereas the United Kingdom is among governments that already apply full accrual accounting standards and apply accounting standards that are broadly consistent with IPSAS requirements. We mean, when the accrual basis of accounting underlines the preparation of the financial statements, the financial statements will include the financial performance, the cash statement and the statement of changes in assets/equity. On the other hand, when the cash basis of accounting underlines the preparation of the financial statements, the primary financial statement is the statement of cash receipts and payments. We recognize that the government of Rwanda has made a decision to adopt the modified cash basis. Still, we do not agree that the government of Rwanda classified among “cash basis of accounting” governments (see IPSAS) can use the same bookkeeping method as the United Kingdom classified among “accrual basis of accounting” governments.

As a conclusion, we maintain that the fund accounting is more demanding and complicates the preparation of financial statements in Rwanda. Therefore, we suggest the cameral accounting as an alternative accounting system, allows reporting the money effects of revenues and expenditures, by using the single-entry bookkeeping in simple and systematic way. Moreover, we think that one of reasons the government of Rwanda delays to publish the financial statements, is because it is using the fund accounting with a complicated double-entry bookkeeping method. We maintain that, actually, Rwanda does not qualify for use of accrual accounts. Therefore cameral accounts could be the best alternative.

6. 2 Implications for further research

In this thesis, we found that in spite of the financial statements of the government of Rwanda present money financial statement; however, they are recorded using the double-entry bookkeeping method of the fund accounting. We mean, during the analysis and based on the documents we used, there is neither any reason for Rwanda to report the profit performance, nor to use the double-entry bookkeeping method. Therefore, for further research, we suggest that an interview with those in charge of preparation of financial statements in Rwanda should be undertaken in order to reveal whether or not there is any interest for reporting the profit in governmental organisations of Rwanda. The findings from this survey are of a capital importance, not only for the case of Rwanda but also for other “developing countries”. We mean, because the developing countries in general depend very much on the assistance from developed countries, therefore, the financial annual report should report first of all how the assistance received has been used (spent). Especially, because this assistance is a part of public revenues collected through the taxpayers in developed countries, and the developed countries in their turns must explain to their inhabitants (taxpayers) how the public resources have been used. The main question here is whether or not there is interest in reporting the profit in the governmental organisations especially those of poor countries. If not, why using the double-entry bookkeeping method when reporting the money effects of revenues and expenditures?

Another point for further research is the impact of using the double-entry bookkeeping method on the reliability of financial statements information. We mean, by the fact that developing countries do not have neither enough resources nor qualified employees, using a complicated bookkeeping method, not only is expensive but also could impede the transparency and then encourage corruption.

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Appendix

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