

## Objectives

At the end this chapter, students should be able to:

- Enumerate sources of government revenue;
- Explain simple terminologies related to public sector accounting;
- Classify expenditure into capital and recurrent;
- Apply public sector accounting classifications;
- Work examples related to public sector accounting classifications.

### 9.1 Introduction

The public sector is made up of various arms of government with each having a special way of accounting. In most cases, these units of government provide essential services such as good roads, pipe-borne water, information etc for citizens and business organisations by means of revenue (income) and expenditure. Public sector accounting deals with the source of government revenue and its expenditure, while the accounting of business organisations are kept to determine profits or losses. The ultimate objective of government or public sector accounting is to ascertain the excess of income over expenditure or vice-versa.

### 9.2 Terminologies In Public Sector Accounting

Terms related to public service accounting:

1. Revenue: Is another name for income.
2. Revenue account: This is the account into which revenue or income is prepared.
3. Revenue Ledger: This ledger contains accounts of income-generating items such as rent on government houses, sales of government publications, and grants and subventions from government.
4. Surplus: This is the term given to the excess of income expenditure in the final account of a public service organisation.
5. Deficit: When government expenditure is greater than income in the final account, the difference is known as deficit.
6. Fund: This refers to the total amount of money set aside for a particular purpose or owned by a government organisation and such is available for its expenditure.
7. Accumulated Fund: This is term given to the fund that grows from surplus funds and capital grants from period to period in a government establishment.
8. Subvention And Grant: Subvention is fund provided by a government to another government unit for financing its activities generally in a particular year while grant is fund provided by the government for a specific purpose. Therefore, the income of a government unit will include subventions and grants.

### 9.3 Sources Of Government Revenue

Federal government revenue may be classified into the following:

1. Sales & Leases
  - i. Crude oil-Gas
  - ii. Oil fields
  - iii. Government properties
  - iv Telecommunication services

- v. Postal service etc
- 2. Direct Taxes
  - i. Company income tax
  - ii. Petroleum profit tax
  - iii. Capital gains tax-Casino
  - iv. Stamp duties and penalties etc.
- 3. Indirect taxes, made up of:
  - i. Import duties
  - ii. Export duties
  - iii. Excise duties
  - iv. Value added tax (VAT)
- 4. Licensing And Internal Revenue
  - i. Motor vehicle license
  - ii. Goldsmiths and gold dealer's licenses
  - iii. Arms and ammunition licenses
  - iv. Wireless & television licenses
  - v. Boats and canoes licenses
  - vi. Court fines
  - vii. Naturalisation & citizenship
- 5. Mining
  - i. Royalties
  - ii. Rents
  - iii. Fees
  - iv. NNPC surplus funds.
- 6. Fees
  - i. Court fees
  - ii. Trade union fees
  - iii. Passport & visa
  - iv. School fees
  - v. Marriages fees
  - vi. Health fees
  - vii. Veterinary fees
  - viii. Airport tax (NAA )
- 7. Earning & sales
  - i. Ferry service
  - ii. Marine
  - iii. Government coastal agency
  - iv. Publications-Vaccines
  - v. Others
- 8. Rent of government property
- 9. Interest repayments
  - i. General
  - ii. State governments
- 10. Reimbursements
  - i. State governments
  - ii. Other West African governments
  - iii. International organisations
  - iv. Federal government agencies
- 11. Miscellaneous
  - i. Unclassified items

The federal government of Nigeria depends on the sources listed above for generation of internal revenue from which its expenditure is financed.

You will learn later in this chapter about the nature of the expenditure and how they are actually financed.

State governments derive their revenue from statutory and nonstatutory allocations from the federal government. Statutory allocations are revenues which must be made available to state government by the federal government under the laws of the federal republic of Nigeria while non-statutory allocation are

those revenue made available by the federal government to state governments through goodwill to assist them in financing expenditure arising from emergency such as flood and special problems in the area of health and education.

By the constitution of the country, state governments cannot collect revenue from import, export, excise duties and mining, also they are not allowed to collect petroleum profit tax and company income tax.

Therefore, most states of the federation depend on the following sources of revenue:

- (i) Statutory allocation
- (ii) Non- statutory allocation
- (iii) Personal income tax
- (iv) Rates
- (v) Property tax
- (vi) Fees motor licenses, birth/death certificates
- (vii) Earnings and sales
- (viii) Rent of government property
- (ix) Interest and repayments
- (x) Reimbursements
- (xi) Miscellaneous

All government revenue are paid to the treasury into an account called consolidated revenues fund from where various ministries draw their votes for recurrent expenditure or revenue allocation when they have been given authority to do so.

Certain public sector organisations enjoy some degree of autonomy in that they do not deal directly with government treasury; universities, polytechnics and research organisations owned by the federal government are a few of such organisations. Their sources of revenue include grants and subventions and income from own sources.

#### Activity

Seeking the help of a government official or your teacher, collect information and complete the table below on the revenue of your state government for (last year)

Revenue allocation for the year 20....

Statutory allocation	N
Non statutory	
Internal generated revenue	

#### 9.4 Capital Expenditure

This refers to expenses on items of long term permanent nature such as roads, buildings and motor vehicles etc.

#### 9.5 Recurrent Expenditure

This refers to all government expenses of non-capital nature which are mainly for the administration and running of the public sector organisation e.g. salaries and allowances of officials, rents, traveling and tours, hospitality, pensions, etc.

Head and Sub-Head Account: Head is the number given and restricted to each items of government revenue or expenditure for the purpose of allocation of revenue and control of expenditure. A head is a code and a sub-head is head is under the head or code e.g.

Head	Item
Sub-head (under the head)	Personal emoluments
01	- Basic Salary
02	- Responsibility Allowance
03	- Rent Allowance
04	- Tax deduction etc.

The above is interpreted head 25 sub-head 02 which is often written as 25 [02] represents personal emoluments responsibility allowance. Once an amount of fund is allocated to a head expenditure cannot be transferred from one head or sub head to another without going through an approved procedure. This is the term given to the

allocation of money made to a head if the vote is exhausted money cannot be transferred from another head without going through a procedure known as virement. However, a new allocation can be made to increase the head's vote.

### 9.6 Capital and Recurrent Account

This is made up of what is called estimates. Government budget is known as estimates. It is the financial proposal of the governments its social and economics operations depend on this vital document; an estimate is prepared for a particular year by the federal government of Nigeria and the states starting from 1 January and ends on 31 December of every year. The estimate is made up of two main parts, namely recurrent estimate and capital estimate. The recurrent estimate is classified into recurrent revenue estimate and recurrent expenditure estimate. Capital estimate is classified into Capital Receipt estimate and Capital Expenditure estimate.

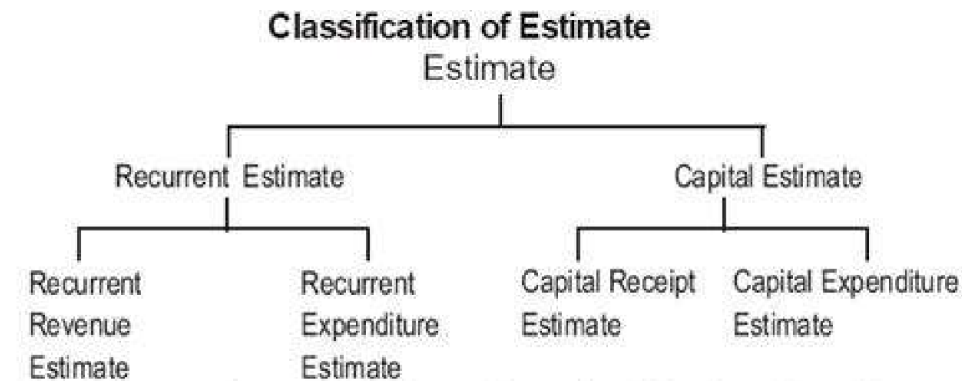


Fig 9.1 specimen showing the classification of estimate

### 9.7 Recurrent Revenue Estimate

This part of the estimate shows detailed day-to-day revenue expected for the particular financial year under revenue head and sub-head. At times, it may be based on the information available from the previous year's figures. Columns are provided for the previous year and the current year for the comparison.

#### Republic Of Junta Recurrent Revenue Estimate 2009

##### Heads 300 Revenue

Sub Head	Details Of Revenue	Estimates 2009	Approved Estimate	Actual Revenue
1	Customs & Excise	444.0	422.0	422.0
2	Direct Taxes	650.6	647.2	629.8

3	License & Internal revenue	20.4	20.4	20.4
4	Mining	23.4	22.4	23.0
5	Fees	23.2	21.0	28.8
6.	Earning & Sales	22.64	20.44	20.62
7.	Rent on government property	2.2	2.2	2.2
8.	Interest & repayment	2.50	2.30	2.32
9.	Reimbursement	2.8	2.6	2.8
10.	Miscellaneous	2.2	2.42	3.2
	Total	<del>1202</del> 1157.04	1163.02	1154.94
	Less:			
	Statutory Allocation to	45.0	43.4	43.4
	State & Local Government			
	Retain Revenue	<u>1157.04</u>	<u>1119.62</u>	<u>1111.54</u>

In the federal government, recurrent revenue estimate provision is made for statutory allocations of revenue to state governments and the local authorities. These are shown as deduction from total revenue from the various heads and the balance is the actual figure of estimates retained by the federal government to finance its expenditures. Government institution like universities, polytechnics and research institutes have to prepare estimates for their revenue and expenditures and forward them to the budget department of the federal government for incorporation in the federal estimates. The recurrent estimate of each of these institution is made up of grants and subventions from federal government and income from own resources.

Cocoa Research Institute

Head 425 Recurrent Revenue Estimates 2009

Sub Head	Details Of Revenue	Anticipated Revenue 2009	Amount Expected 2008	Amount Received 2007
24	Recurrent Revenue From Federal Government	N'm 1,620,000	N'm 1,418,000	N'm 1,418,000
25	Other Incomes			
36	Consultancy conference fees	4,000	3,600	1,800
37	Workshop & seminars	10,000	6,000	4,000
38	Contractors Registration fees	1,600	1,600	1,400
39	Rent of Government Quarters	1,800	1,800	1,700
40	Tenders Fees	1,000	1,200	1,100
41	Sale of Chemicals	400	480	360
51	Miscellaneous	800	720	600
	Interest on Loans	1,000	1,000	800
	Gross Revenue	<u>1,640,600</u>	<u>1,434,400</u>	<u>1,429,760</u>

Fig. 9.2

#### 9.8 Recurrent Expenditure Estimates

Recurrent expenditure contains all government proposals for expenditure on items whose service do not go beyond a financial year. It is prepared in two parts, namely: Personnel Cost and Overhead Cost. Personnel cost is made up of

salaries and allowances of all categories of employee in the public service.

Overhead Cost refers to expenses incurred on repairs and maintenance of fixed assets. It includes expenses on consumable materials, travels training and development.



**Republic Of Junta**  
**Recurrent Expenditure Estimate 2009**

Heads		Estimates 2009				Actual estimates 2008 ₹'M
		Personnel cost ₹'M	Overhead cost ₹'M	Total ₹'M	Approved estimates 2008 ₹'M	
31	Ministry of Finance	120.0	84.0	204.0	204.0	200.0
32	Ministry of work & labour	80.0	60.0	140.0	130.0	124.0
32	Ministry of Defence	120.0	98.64	218.64	218.0	110.0
34	Ministry of Mires & service	16.0	6.0	22.0	18.0	18.0
35	Ministry of Industry	140.0	70.0	110.0	206.0	208.0
36	Ministry of Establishment	16.0	8.0	24.0	22.44	22.44
37	Ministry of External Affairs	20.0	8.0	28.0	28.0	28.0
38	Ministry of Agriculture	18.0	6.0	24.0	24.0	24.0
39	Ministry of Trade	56.0	28.0	84.0	80.0	84.0
40	Ministry of Education	36.0	20.0	56.0	52.0	48.0
41	Ministry of Internal Affairs	14.0	6.0	20.0	20.0	24.0
42	Ministry of Labour	12.0	4.0	16.0	16.66	17.0
43	MinistrY of Economic Planning	20.0	8.0	28.0	24.0	26.0
44	Ministry of Health	18.0	4.0	22.0	22.0	22.0
45	Ministry of Communication	20.0	24.0	44.0	202.28	40.0
46	Audit	3.0	106	4.16	4.24	4.0
47	Police	6.0	4.0	10.0	10.0	10.0
48	Public service Commission	2.0	0.24	2.24	2.0	2.0
	TOTAL Recurrent Expenditure	<u>7170</u>	<u>440.04</u>	<u>1157.0</u>	<u>1101.62</u>	<u>1111.54</u>

Fig. 9.3

# **Recurrent Expenditure Estimate Personal Cost**

Head .400

Personnel Costs

Sub Head	Details of Expenditure	Establishment 2009	Establishment 2009	Estimates 2009 Nm	Estimates 2009 Nm
301	Director General	1	1	140,000	140,000
302	Deputy Director General	1	1	130,000	130,000
303	Directors	4	4	480,000	360,000
304	Financial Controller	1	1	120,000	120,000
305	Chief Accountant	1	1	110,000	110,000
306	Chief Internal Auditor	1	1	110,000	110,000
307	Chief Consultant	1	1	220,000	360,000
308	Research Officers	6	6	540,000	360,000
309	Asst Research Officers	4	4	320,000	320,000
310	Senior Internal Auditor	2	2	120,000	120,000
311	Internal Auditor	2	2	90,000	90,000
312	Administrative Officer	3	3	135,000	135,000
313	Personal Secretary	2	2	110,000	110,000
314	Laboratory Technicians	3	3	135,000	135,000
315	Laboratory Assistance	1	1	45,000	45,000
316	Typist Grade I	4	4	100,000	100,000
317	Typist Grade II	3	3	132,000	132,000
318	Nursing Sister	2	2	90,000	90,000
319	Security Officer	2	2	90,000	90,000
320	Office Assistance	6	6	120,000	120,000
321	Security Guard	10	10	150,000	150,000
322	Cleaners	10	10	100,000	100,000
	TOTAL			3,587,000	3,177,000

Fig. 9.4



# Head 401 Overhead Costs

Sub Head	Details of Expenditure	ESTIMATES	
		2009 ₦000	2008 ₦000
501	Stationery	120,000	100,000
502	Maintenance of office equipment	242,000	231,100
503	Maintenance of generating plant	250,000	220,300
504	Staff & training & development	1,100,000	950,000
505	Seminars & conferences	900,000	800,000
506	Transport & travelling	150,000	130,000
507	Hotel expenses	240,000	220,000
508	Office & general expenses	280,000	260,000
509	Subscriptions	21,500	11,000
510	Dailies and periodicals	60,000	60,000
511	Hospitality	35,000	30,000
512	Printings & publications	995,000	970,000
513	Honorarium	20,000	20,000
	TOTAL	4,413,500	4,002,400

Fig. 9.5

## 9.9 Capital Estimates

These refer to capital receipts and capital expenditure estimates.

### 9.9.1 Capital Receipts estimates

Capital receipt refers to a sum of money received as external grants to federal government, internal loans and external loans tied to specific projects, also include contribution from accumulated fund or consolidated revenue fund.

## Republic Of Junta Capital Receipts Estimate 20

Sub Head	Details of Expenditure	Expected receipts	Receipts
		2009 ₦b	2008 ₦b
311	Contributions from Consolidated Revenue Fund	6.8	6.4
312	External Grants	2.4	2.0
313	Internal Loans	2.90	2.52
314	External Loans tied to Specific Project	3.20	2.84
	Total Capital Receipts	15.30	13.76

### 9.10 Capital expenditure estimates

These refer to expenses incurred to acquire fixed assets such as motor vehicles, building, and plants & machines equipment.

### 9.11 Equality expenditure and revenue

Total expenditure should equal total revenue. Accordingly, recurrent expenditure must equal recurrent revenue and capital expenditure must equal capital receipts. In practice, this is not usually so. There may be surplus as a result of prudent spending and successful efficient revenue collection methods. On the other hand, there may be deficit which can be met by government borrowing or suspension of projects.

Fig 9.2

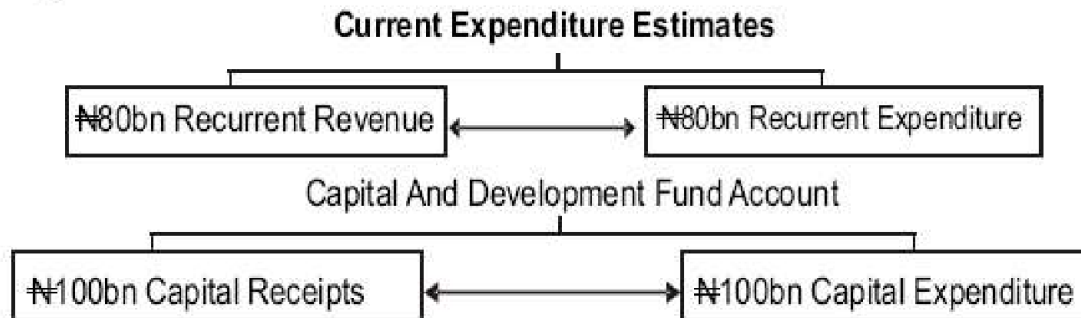


Diagram showing equality of Revenue and Expenditure

### 9.11 The Process of an Estimate

The process of an estimate is chain like. It involves all units and parts of government organisation, a nation or a state, going from the look at the highest part. The various units and parts are linked from a whole large unit at the top.

Every section of an organisation prepares its own estimate and forwards it to the departmental level where the sectional estimates are assembled, scrutinized and co-ordinated to prepare departmental estimates. From the departmental estimates, a divisional estimate is produced. The corporate estimate is a summary of all the divisional estimates. In other words, the estimates of a ministry, corporation or board, is a summary of the estimates of its various units. The estimate of the federal government is a summary of the estimates of the various ministries, boards, government department and parastatals. All unit heads, departmental heads, divisional heads and the highest officers in every organisation and their staff are involved in the process of an estimate. In order to ensure uniformity and high standard, guidelines on format and rules for calculation are generally issued from the top. A section of the accounting department of every organisation is usually responsible for monitoring the preparation of estimates by its various units.

It shows a clearer analysis of the procedures involved in estimates preparation.

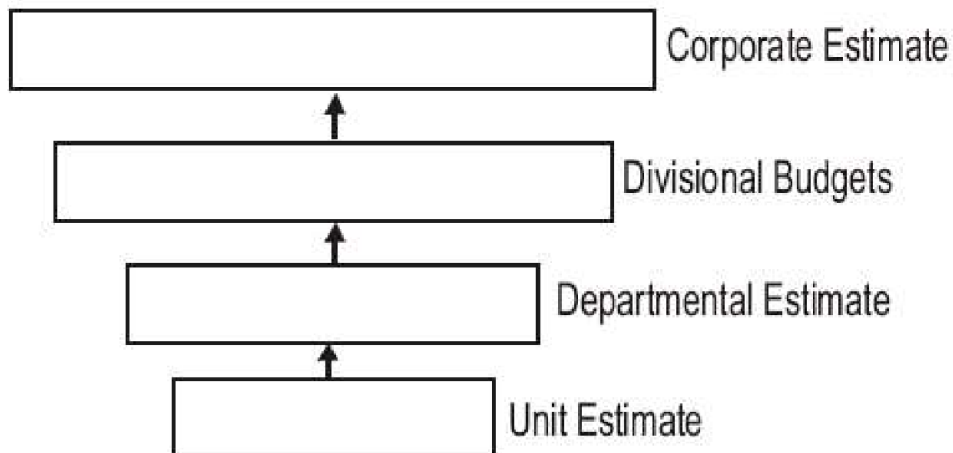


Fig. 9.3

Below is the diagram showing the stages of an estimates

Estimates procedure include the following:

1. Call Circular

This contains instructions from an approved authority to a government organisation, demanding estimates for the coming year or period, to be submitted at a given date or deadline. The instruction includes guidelines and format.

On receipts of a call circular by the budget section of the accounts department, it is communicated to every unit/department estimates. The units' estimates prepared at unit level are passed on the departmental estimates while the department budgets form the basis for the corporate or government estimate.

## 2. Budget Preparation

This is the activity involved in the actual preparation of the various types of estimate for the coming year by complying with approved guidelines and format.

## 3. Budget Session

It is the meeting at which an estimate is extensively and critically examined before it is approved by the highest powered authority in a unit or organization.

### Activity

1. From the nearest public library or government department, obtain a copy of the current estimate of your state government and identify the following;

- (a) The ministry having the highest personnel cost
- (b) The ministry having the lowest overhead costs
- (c) Total recurrent expenditure for the state
- (d) Total capital expenditure

2. From the current estimate for your state, choose two ministries and compare their items of overhead costs. Find out differences and similarities.

3. From the recurrent revenue estimate, identify revenue items which are expected from the following:

- (a) Highest revenue
- (b) Lowest revenue
- (c) Highest increase in revenue
- (d) Lowest increase in revenue
- (e) No increase in revenue
- (f) Decrease in revenue

## 9.12 Summary

In this chapter, students have learnt that:

- Government gets its revenue from various sources including sales of crude oil and gas, taxes such as company income tax, payee and VAT licenses and fees e.t.c.
- State governments cannot collect revenue from import, export, customs and excise duties, mining and petroleum, profit tax and company income tax.
- Government estimate can be classified into recurrent estimate which includes recurrent revenue and recurrent expenditure on one hand, and on the other and, capital estimates which includes capital receipts and capital expenditure.
- In theory, total expenditure should equal total revenue but in practice this is not usually so.
- The process of an estimate is chain involving every unit of the whole nation and her organizations.
- Estimate procedure includes all circular, estimate preparation and budget session.

## 9.13 Revision Questions

1. (a) List 6 major sources of government revenue.
- (b) Distinguish between recurrent revenue estimates and recurrent expenditure estimates.
2. Attempt a re-grouping of the following list under the heading.

- (a) Capital expenditure
- (b) Overheads
- (c) Personnel costs
- (d) Revenue source

- i. Salaries and allowances of the financial controller
- ii. Maintenance of office equipment
- iii. Transport and traveling expenses
- iv. Stationery

- v. Emoluments of confidential secretaries
- vi. Cost of office buildings, school building
- vii. Customs and excise
- viii. Direct taxes
- ix. Rent on government property
- x. Royalties from mining oil drilling.

3. (a) The following were the actual revenue and approved estimates from these sources in 2008 2009 respectively.

	Estimates 2009	Approved estimates 2008	Actual revenue 2007
	N b	N b	N b
Direct taxes		32	30
Customs & excise		24	20
License & fees		8	8
Rent on government property		4	4
Mining		16	12
Interest & repayments		2	2
Reimbursement		1	0.2
Miscellaneous		1.6	1.2

From the under listed additional information, prepare the recurrent revenue estimate for 2009.

- i. Direct taxes to increase by 2% over the previous year.
  - ii. Customs & excise to increase by 4% over 2007, actual revenue.
  - iii. Licenses & fees to remain the same.
  - iv. Rent on government property to increase by 5% over the previous years.
  - v. Mining to increase by 7% over previous years.
  - vi. Interest & repayments to increase by 100% over 2007.
  - vii. Actual revenue.
  - viii. Reimbursement to remain the same as for previous year.
  - ix. Miscellaneous to increase by 15% over 2008 actual revenue.
3. (b) What is the percentage increase of 2009 estimate over 2007 actual revenue.
4. From the following information, prepare the personnel costs estimate for the Akwanga College of agriculture for 2008.

Established posts	No. On 2008	Remarks 2007	Annual Emolument per Head ₦ 'M
Rector	1	No change	16
Rector	-	1 expected	15
Directors	4	3 increase	14
Registrar	1	No change	14
Deputy registrar	1	2 increase	10
Heads of department	8	4 increase	14
Chief lecturer	10	5 increase	14
Senior lecturer	12	10 increase	9
Lecturer I	15	10 increase	8
Lecturer II	20	10 increase	6
Asst. lecturer	30	12 increase	5

5. Briefly define the following and give 2 examples in each case:

- Capital expenditure
- Capital receipts
- Overhead costs
- Recurrent expenditure
- Recurrent revenue
- Statutory allocation.

6. In public service accounting, one expects the approved estimated revenue to tally with the approved estimated expenditure in theory but in practice, there is always a variance. Attempt an explanation of the usual disparity.

7. One of the following is not a revenue item for government.

- Company income tax
- Personal income tax
- Profit tax
- Petroleum tax

8. Which of the following is a recurrent item?

- Construction of Enugu-Onitsha road
- Scholarship and business
- Painting of Ibadan high court
- Purchase of official vehicles.
- Teaching hospital equipment

9. The annual summary of public sector revenue and expenditure is called \_\_\_\_\_.

- A. proposal
- B. plan
- C. budget
- D. quotation

10. When the expenditure of an estimate exceeds revenue the difference is known as \_\_\_\_\_.

- A. surplus
- B. carry over
- C. net
- D. deficit