Finance and accounting

[Finance]

Finance and Accounting The different environments of accounting in government and the private sector cause the differences in the reporting between the government and the private sector. The core objective of government agencies is not the profit motive but the need to provide public goods and services (Bourn 53). The private sector on the other hand operates with the main aim of maximizing the return of the shareholders (Tiffin &Young 69). Because of the differences in the reporting nature and the objectives of accounting reporting, government accounts failed to reveal the high level; of bankruptcy as was observed by the private sector. To begin with, the government does not prepare their financial statements using the generally accepted accounting standards that are used by the private sector. The government does not therefore prepare the income statements, balance sheet and cash flow statements as done by the private organizations (IPSAS 61). This makes it difficult to reveal the inability of public institutions to show their level of bankruptcy. Governments instead start to adopt the use of international public sector accounting standards to show consistency in their reporting (Kohler &Wright 96). Furthermore, the government only uses the cash basis of transactions and not the accrual basis (Berger 163). This relives them from having a large proportion of creditors making them hide the poor financial positions. More still, the treatment of acquisitions of fixed assets is different for both the government and the private businesses (Fourie & Opperman 279). In the case if the governments, purchases of fixed assets are considered as an expense and do not therefore, appear in the statements that are prepared by the governments. On the side of private business, such transactions are capitalized and depreciation expenses deducted when reporting the financial performance. Secondly, the government in making the statements showing their assets and liabilities does not include the long-term financial obligation it has towards the third parties. This therefore means that the government statement s is incomplete and does not show a key component that is used in the determination of bankruptcy position by the private sector. Consequently, it will be difficult to show the inability of the public accounts to meet their debt obligations. Moreover, governments is ever in a position to adjust their tax levels in order to collect more revenue that can be utilized in meeting their financial / debt obligations., both the federal and the state governments are capable of adjusting upwards ort introducing new tax on the citizens. This will make them collect additional revenue that is needed in meeting their debt obligations. In addition, statements that are prepared by the government are not always subjected to intensive audits as those of the private sector. The security exchange commission, which is a government department, is charged with the obligation of ensuring that firms operate according to the act in order to have a smooth running of the financial markets. However, they do not have the ability to execute this mandate on the side of other government departments making government accounts susceptible to manipulation and falsification with a bid to hide bankruptcy positions. Private firms are in addition to the tight regulations they are subjected to closely monitor by external auditors who have to make their reports to the shareholders (Graham 138). This therefore makes the financial position of private entities known compared to those of the public sector. Besides, government and their agencies that are faced with bankruptcy charges get salvage from the federal governments, which have the ability to make the payments to the debtors and defend their position. Private entities on the other hand do not have any option in cases that they are faced by bankruptcy accusations. If proved bankrupt, private entities only have the option of liquidating their assets in order to meet their debt obligation. This process normally takes place under the directive of SEC making them more vulnerable than public enterprises (Previts & Robinson 206). Government does not prepare their financial statements in accordance with the generally accepted accounting principles. Finally, managers of public sectors and their agencies are the politicians. Politicians are elected by the citizens to act on their capacity and serve their interests when in office. After being granted this mandate, the citizens bequeath their duty of keeping the politicians accountable. Worse still, the leadership portrayed by the politicians is always authoritative, as they do not give opportunity for the public to look and assess the performance of public entities. This thus makes it impossible to uncover, dwindling financial positions in the public as opposed to the private companies where the shareholders have access to the financial statements and can put the management to account for how the resources have been used (Torre 106). Failure to do so, grants the shareholders an opportunity to dismiss the directors and appoint new ones who can manage successfully the businesses. This has shielded the government from having their bankruptcy being uncovered. Finally, the creditors of public organizations assure that there is no risk in lending to the government. This makes them reluctant to panic and have worries on whether their money will be repaid. The government debt is considered risk free since the government can do anything to ensure that the obligations are repaid. Lenders to private firms are always interested in the company’s performance and even slight financial difficulty by the private organizations will be detected. In summary, the political environment shields the flaws in public financial statements from being detected. The use of different accounting principles further makes the bankruptcy position in public enterprises hidden and difficult to detect. Irrespective of whether an organization is public or private should not deter detection of bankruptcy position and financial positions. Public enterprises should become financially accountable. Accountability should remain fundamental to organizations. Works Cited Berger, Thomas Mu? ller. IPSAS Explained: A Summary of International Public Sector Accounting Standards. Chichester: Wiley, 2009. Print. Bourn, John. Public Sector Auditing: Is it Value for Money?. Chichester, England: John Wiley & Sons, 2007. Print. Fourie, Mare, and Lucas Opperman. Municipal Finance and Accounting. Hatfield, Pretoria: Van Schaik Publishers, 2007. Print. Glossary of Defined Terms: IPSAS 1 to IPSAS 18.. 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