

DEBATE ON THE RECOGNITION OF INCOME IN PUBLIC EDUCATIONAL INSTITUTIONS WITH FINANCIAL AUTONOMY

¹GRIGOROI LILIA, PhD

e-mil: lilia.grigori@ase.md

²TURCANU LILIANA, PhD Student

e-mail: lili_turcanu@mail.ru

^{1,2}Academy of Economic Studies of Moldova

61, Bănulescu-Bodoni Street, 2005 Chişinău, Republic of Moldova

Web page: www.ase.md

***Abstract.** The article addresses the issue of recognizing the income of public higher education institutions with financial autonomy, taking into account the accounting regulations in force and the particularities of their activity. We analyzed a series of normative acts governing the formation and recognition of revenues within these institutions, as well as issues related to their recognition, starting from the provisions of the national accounting framework, but also from the literature on this subject, which, unfortunately, it is not very rich.*

***Key words:** National standards of accounting, income, public educational institutions with financial autonomy.*

JEL CLASSIFICATION : M41

INTRODUCTION

The accounting reforms that have taken place in the last 8 years have been revolutionary for public educational institutions with financial autonomy, their purpose being to adapt them to the new economic and social conditions. We remind that starting with January 1, 2013, the Chart of Accounts of the accounting records regarding the execution of expenditure estimates of budgetary institutions was transferred to the Chart of Accounts of economic-financial activity, which more explicitly means the change of budgetary accounting system on corporate accounting. Thus, as of January 1, 2013, public higher education institutions with financial autonomy align themselves, from an accounting point of view, with those in the private sector and keep accounting in accordance with the Law on Accounting and Financial Reporting no. 287 of December 15, 2017 [1], National Accounting Standards [2], General Plan of Accounting Accounts [3] and other normative acts in the field of accounting. So, for these institutions it was a real accounting transformation, fundamentally changing the accounting methodology and engineering. A long period of transition, learning, adaptation and organization of accounting followed, but which unfortunately did not solve all the problems of this sector of the national economy.

The experience of private educational institutions, which at that time were already applying the NAS, could have served as a guide in this endeavor. However, previous studies [4, p. 16] show that private educational institutions also prevented deficiencies, largely in the recognition and accounting of income. Researcher Taban E. [4, p. 16] stated in her research that private higher education institutions recognized and recorded income from services differently, although they were based on the same normative stipulations.

However, the relay of difficult and debatable aspects is also taken over by public educational institutions with financial autonomy. However, they did not benefit from accounting guidance and

advice from public authorities in the process of transitioning from the budgetary to the corporate accounting system. On the contrary, some regulatory norms that presented only general guidelines and recommendations also contained methodological errors. Unfortunately, they were insufficient to ensure the coherence of accounting principles and to provide a true conceptual framework for the institutions concerned.

The range of problems and disputes of an accounting nature in public educational institutions with financial autonomy has expanded with the implementation of the new NAS in 2014, the implementation of new laws on accounting and financial reporting in 2019 and last but not least, the NAS changes in 2020. Unfortunately, for the older problems and disputes, no solutions were found in the improved and modernized accounting regulations. At the same time, a discrepancy was created in the normative acts that regulate the given field. We also attest to a reluctance on the part of public authorities to remove discrepancies and ensure the compatibility of normative acts.

Based on the above and given that the NAS are complex and do not meet the needs of financial institutions with financial autonomy, the aim of this work is to develop a methodology for recognition and accounting of revenue for public educational institutions, deriving from the content of the NAS and the particularities of the activities of these institutions.

The research results will be able to be used both in the practice of public institutions with financial autonomy, of entities in the field of education and research, and for didactic purposes.

BRIEF ANALYSIS OF BIBLIOGRAPHIC SOURCES IN THE FIELD OF THE RESEARCHED PROBLEM

Revenue recognition and accounting is a topic of interest, intensely discussed in the literature, which is constantly evolving. Previous studies address [5], for the most part, the issue of revenue arising from the validity of accounting regulations at the time. However, the accounting regulations do not remain static, but are constantly improved and updated, introducing new provisions and requirements, which, in the end, cause both impediments and disputes related to their understanding, interpretation and implementation. An important determinant in the implementation of any new provisions is the specifics and particularities of the activities carried out. However, the subject of income recognition and accounting in public higher education institutions has particularities and creates disputes from the perspective of the application of national accounting regulations in this sector of the national economy. This topic is debated by a limited number of local scientific papers, but foreign studies [6, 7, 8, 9] do not address the issues of the institutions of this sector of the national economy, as they are different accounting systems.

Domestic studies in the field of income recognition and accounting in public higher education institutions can be divided into two categories: a category that addresses the problems of organizing accounting, including income recognition and accounting in public education institutions until their transition to NAS application (until in 2013) [4] and the second category, the one that addresses the issues arising from the provisions of the NAS (after 2013) [10].

However, the issues related to the recognition and accounting of income in public higher education institutions with financial autonomy are insufficiently addressed in the literature, and the complexity of the phenomenon requires continuous theoretical and methodological research in the field.

DESCRIPTION OF THE RESEARCH METHODS USED

The scientific approach was based primarily on a content analysis of the local legislative and economic environment with reference to public educational institutions with financial autonomy. At the same time, general research methods were correlated in the research process. Of the general ones, content analysis, synthesis, induction and deduction were used.

THE RESULTS OBTAINED

Although there are developments in improving the regulatory framework for financially public educational institutions, they still raise technical and operational issues for professionals.

We consider a major shortcoming in the recognition of revenues to be inconsistencies or mismatches between the normative acts in force. Thus, we identify a discrepancy, first of all, of the term "income". However, according to NAS, income represents increases in economic benefits recorded during the management period, in the form of asset inflows or increases in value, or a decrease in liabilities that result in increases in equity, except for increases in owners' contributions. In the definition of income, the accrual accounting convention is observed, which considers that the effects of events and transactions are taken into account when they occur and not as cash is collected or paid. While, the Regulation on the formation and use of revenues collected by the authorities / institutions subordinated to the Ministry of Education, Culture and Research [11, art. 2] stipulates that the revenues of the institutions are formed from the financial means collected on their accounts from the execution of works and the provision of services, against payment, rent or lease of patrimony, donations, sponsorships and other money legally entered into possession of subordinate authorities / institutions subordinated to the Ministry of Education, Culture and Research. The definition expressly results from the application of the cash accounting principle, which is completely different from the accrual accounting principle, indicated to these institutions by Law 287/2017 and NAS. It is also important to reiterate that although public higher education institutions with financial autonomy have not been in line with the provisions of this regulation for more than 8 years, this regulation has not been updated with relevant stipulations and compliant with the regulatory framework for these institutions.

Outdated stipulations are perplexity, create confusion and produce violations of other normative acts in force. It is recommended to update that Regulation, based on the new conditions of activity, imposed on these institutions by other regulations.

Another discrepancy concerns the regulation on the functioning of state higher education institutions in conditions of financial autonomy [12], which stipulates that "the institution keeps the accounts in accordance with the Accounting Law no. 113-XVI of April 27, 2007 ". In the meantime, Law no. 287/2017 of accounting and financial reporting, which applies to all entities except the budgetary ones. The text of law 287/2017 shows that it also applies to public higher education institutions with financial autonomy. On the other hand, Law 113/2007 remained in force, did not undergo any updates or references to the new law, as well as some additional clear stipulations regarding the scope. However, we wonder what law these institutions should apply. Professional experience tells us that we must apply Law 217/2017 on accounting and financial reporting, or, the regulatory framework does not give us a firm answer. We recommend to the responsible public authorities the updating of the normative framework that belongs to them as subordinate attributions. And yet the

question that remains is, however, how exactly can the situation and performance of public higher education institutions with financial autonomy be determined? The answer can only be relative.

The series of discrepancies also includes the normative acts regarding the income sources of the public educational institutions with financial autonomy. Figure 1 shows the predetermined sources of income from the point of view of financial autonomy in accordance with the regulation on the functioning of state higher education institutions in conditions of financial autonomy [12, art. 26].

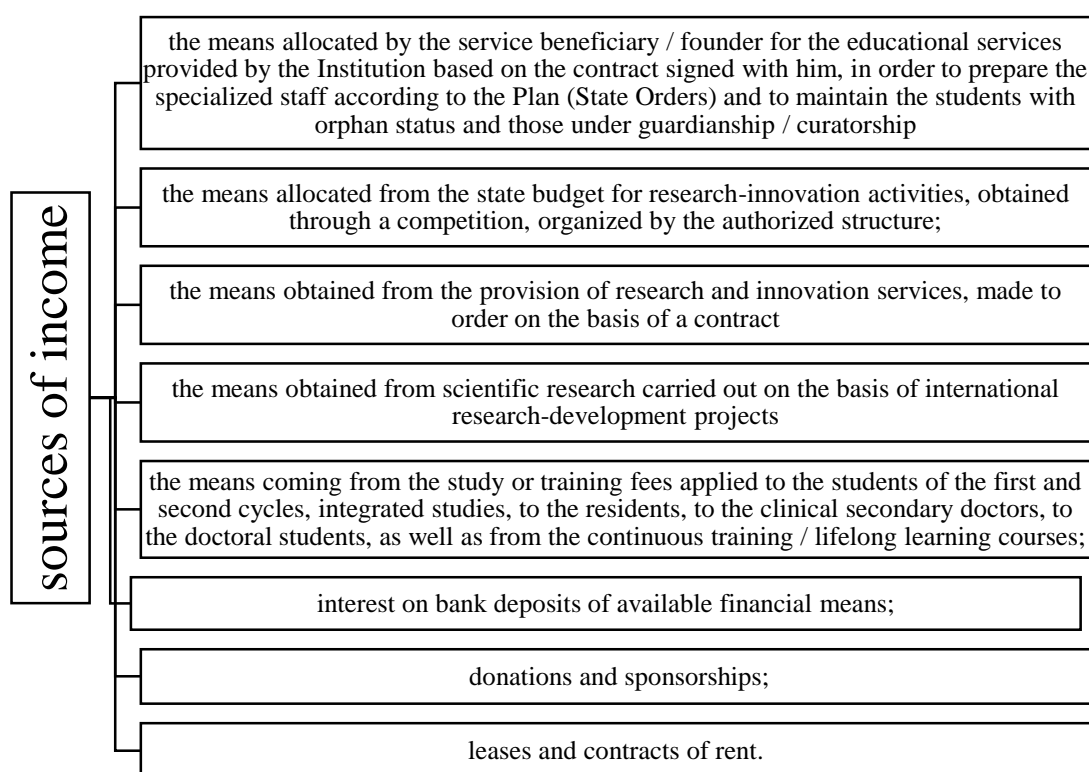


Figure 1. Sources of income of state higher education institutions with financial autonomy

Developed by the author based on the provisions of the Regulation on the functioning of state higher education institutions in conditions of financial autonomy

At the same time, the Regulation on the manner of formation and use of revenues collected by the authorities / institutions subordinated to the Ministry of Education, Culture and Research is applicable [11, chap. II], which also establishes the income nomenclature for the institutions subordinated to the MECR, presented in figure 2.

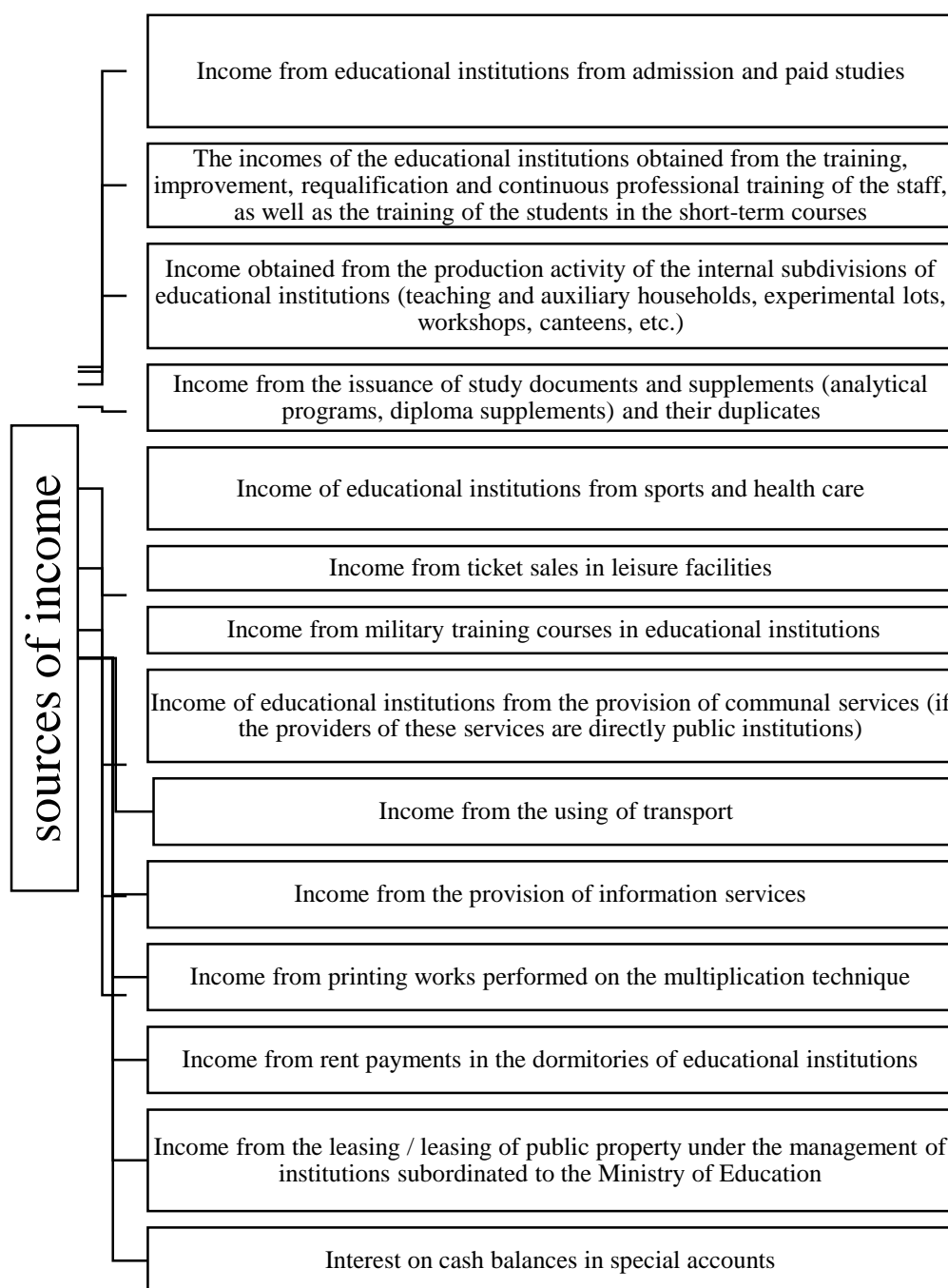


Figure 2. Sources of income of state higher education institutions with financial autonomy

Prepared by the author based on the provisions of the Regulation on works and services against payment, the size of tariffs for services, the formation and use of revenues collected by the authorities / institutions subordinated to the Ministry of Education, Culture and Research

Although both mentioned regulations regulate the formation of incomes in public educational institutions with financial autonomy, we notice both a quantitative and qualitative gap in the nomenclature of incomes, as well as the lack of a synchronization of income sources. Also some of the possible sources of income for public higher education institutions with financial autonomy are missing. The institutions concerned are confused as to the application of these rules, asking questions about the prevalence of the regulations, but also whether they can charge fees and include in their budget sources of revenue not specified in those regulations. For example, the fees for organizing and

participating in scientific conferences. We consider that the updating of the normative regulations for the public educational institutions with financial autonomy is a necessary measure for the Republic of Moldova, as a state that aspires to become a member of the European Union.

Public educational institutions with financial autonomy do not exist to make a profit, they work to ensure education, thus contributing to the well-being of society. The revenues of these public institutions are largely formed from the allocations transferred from the state budget for the study programs offered according to the Plan (State Orders) for the training of specialized staff and scientific research activities. Or, according to the provisions of the Education Code of the Republic of Moldova [13], the educational institutions receive financing from the state budget through the budgetary places granted annually by the Government within the admission plan. For example, the revenues from the state order for the Technical University of Moldova, according to the information presented on its official website, constitute in 2018 approximately 68%, and in 2019 approximately 71% of the total revenues. [14]. ASEM, according to the information present on its official website, reports in 2018 revenues from the State Order in the amount of approximately 44% of total revenues. [15]

Another important source of income is financial resources from paid studies. However, the development by public educational institutions of mechanisms for carrying out income-generating activities, on the one hand, complements the state guarantees regarding the possibility of obtaining higher education, and on the other hand creates conditions and incentives for increasing the efficiency of public institutions and their ability to operate independently in a market economy. For TUM the income from study fees constitutes approximately 11% of the total income in 2019 and approximately 8.6% in 2018 [14], while for ASEM the income from fees has a share of approximately 34% in 2018 [15].

In fact, these sources of income have recognition and accounting problems. Law on accounting and financial reporting 287/2017 [1, art. 3] defines the recognition as an accounting entry and the presentation in the financial statements of an accounting item that meets the definition and meets the recognition criteria set out in the accounting standards. For the definition, recognition and accounting of revenues, the NAS "Income" is applied. Therefore, according to NAS "Income", income is recognized when an increase in future economic benefits related to an increase in an asset or a decrease in a debt can be measured reliably. In fact, this means that the recognition of income is done simultaneously with the recognition of the increase in assets or the reduction of debts.

Since it is a question of recognizing income from the provision of services, we must not ignore the definition of revenue from the provision of services. Thus, according to NAS "Income", income from the provision of services represent the revenues from the execution by the entity of works over a certain period of time (for example, revenues from transport services, repairs, intermediation, consultancy, training, sports, equipment installation, telephony, internet, tourism). Many of us have wondered whether income from services and income from work are two synonymous terms. From the stated definition there is no attestation, from an accounting point of view, of a delimitation between the terms of services and works. The provision of services includes the execution of works and any other operations that cannot be considered deliveries of goods. This treatment is similar to international accounting regulations and accounting practice applied by companies in developed countries. We find the same approach in Romania, according to the Accounting Regulations compliant with the Fourth Directive of the European Economic Communities, the provision of services includes the execution of works and any other operations that cannot be considered deliveries of goods. From a territorial point of view, in some countries there are delimitations between services and works within their normative framework. For example, in Russia, services are delimited by

works. Or, by services are meant the activities whose results do not have material embodiment, are sold and consumed in the process of carrying out these activities [16, art. 38 (5)], and through works - the activities whose results have material embodiment and which can be sold [16, art. 38 (7)].

The definition of income identifies all its essential characteristics, but does not attempt to specify the criteria that must be met before they can be recognized in the financial statements.

Income from the provision of services is recognized in the event of the simultaneous fulfillment of several conditions, as follows.

- 1) the size of the income can be measured reliably;
- 2) the economic benefits related to the transaction are likely to be obtained by the entity;
- 3) the execution stage of the transaction at the reporting date can be credibly assessed; and
- 4) the costs incurred during the transaction and the costs of completing the transaction can be measured reliably.

So, if we have 4 affirmative answers we will recognize the income of the management period.

NAS "Income" prescribes that the recognition of revenues from the provision of services is carried out according to one of the following methods:

- 1) the method of full provision;
- 2) the method of completion percentage [art. 21].

The method of full provision is recommended in cases where the term of provision of services does not exceed a reporting period [2, art. 22]. For educational services lasting from a few months to several years, such a method is, of course, unacceptable, as it means a production cycle that lasts more than a reporting period, during which the institution has no income or expenses, consequently only records costs and services in progress.

However, the question remains open and may be discussed: when is the educational services provided considered? In our opinion, the educational services will be considered fully provided at the end of the entire period of studies, a process justified by granting the study completion document. But the peculiarity of educational services lies in the fact that the learner constantly receives knowledge by attending classes. At the same time, the unfinished studies are still some results of the services provided, as the student can continue the studies later or in another institution.

We could opt for the percentage of completion method, which is applicable in cases where the services, according to the same contract, are provided during several reporting periods [2, art. 2. 3]. However, the contract for the provision of educational services for a fee is concluded for the entire study period. Study fees are usually paid 1-2 times a year, and the learning process takes at least 3 academic years (several years of reporting). Based on them, such contracts fit the definition of long-term contracts, which goes beyond a management period.

According to NAS, the percentage completion method provides that revenues are recognized at distinct stages of the transaction, depending on the percentage completion, ie in the management periods in which the actual provision of services takes place. The recognition of income based on the percentage of completion method is allowed at the same time as the following conditions:

- 1) the moment of concluding the transaction or of a distinct stage of it can be determined with a high degree of certainty at the reporting date;
- 2) the expenses incurred in the process of the transaction and those necessary for its completion can be determined reliably.

These conditions or other similar procedures, which constitute applications of the recognition criteria, generally aim to limit the recognition as income to those elements that can be reliably

assessed and that have a sufficient degree of certainty. We support the hypothesis that the mentioned conditions can be observed in the case of providing educational services, ie we admit the practice of the percentage of completion method. Thus, the income from the provision of educational services for a fee should be reflected in deferred income, with the subsequent monthly settlement of the deferred income to the income from the current reporting period. What would be the best method for estimating and settling deferred income for the income of the reporting period?

NAS "Income" recommends that the amount of revenues, in case of applying the percentage of completion method, be determined based on one of the following procedures:

- 1) the actual volume of services provided;
- 2) the share of the effective volume of the services provided in the total volume of the services provided by the contract;
- 3) the share of expenses incurred on a predetermined date in the total expenses provided by the contract.

Analyzing the above-mentioned methods, we do not find adequate for educational institutions any variant of determining the incomes in case of providing educational services. However, cost is a general constraint that acts on the information that can be provided by financial reporting. Monthly revenue recognition using one of the three recommended methods incurs costs and it is important that these costs are justified by the benefits of reporting that information. To avoid cost-benefit constraints, we choose to recognize revenue from fee-based educational services using the straight-line method of early income settlement.

CONCLUSIONS / RECOMMENDATIONS

The recognition of revenues according to the NAS for public higher education institutions with financial autonomy should be considered a revolution, which offers a number of advantages, but also a multitude of technical and operational problems. The research highlighted both the discrepancies between the normative acts governing the formation and recognition of income of public educational institutions with financial autonomy, and the deficiencies identified in the accounting recognition of income, submitting suggestions and recommendations for resolving these discrepancies and deficiencies.

Of course, the NAS for public educational institutions with financial autonomy, is, naturally, in a continuous process of adaptation and development, corresponding to the evolutions and requirements revealed in their practice, and this article has developed the methodology of recognition and accounting of income for public educational institutions, deriving from the content of the NAS and the particularities of the activity of these institutions.

BIBLIOGRAPHY

1. Law on Accounting and Financial Reporting, no. 287 of December 15, 2017. In: Official Gazette no. 1-6 din 05.01.018. https://www.legis.md/cautare/getResults?doc_id=120938&lang=ro
2. National Accounting Standards. In: Official Gazette No. 233-237 of 22.10.2013. https://www.legis.md/cautare/getResults?doc_id=117850&lang=ro
3. The general plan of accounting accounts. In: Official Gazette No. 233-237 of 22.10.2013. https://www.legis.md/cautare/getResults?doc_id=117857&lang=ro#
4. Taban, Elena. Organizarea contabilitatii in institutiile de invatamant din Republica Moldova (*Organization of accounting in educational institutions in the Republic of Moldova*) [Text]: autoref. tz. PhD in economics: 08.00.12 / E. Taban; Academy of Economic Studies of Moldova (Ch.). - Ch., 2009. - 26 p.

5. Nedeřița, Alexandru. Probleme metodologice ale contabilității veniturilor și cheltuielilor (*Methodological issues of income and expenditure accounting*). https://www.academia.edu/12172733/27046202_Alexandrua_Nederita_Probleme_metodologice_ale_contabilitatii_veniturilor_si_cheltuielilor_intreprinderii
6. Федорченко О. И., Федорченко Т. А. Особенности учета доходов и расходов в частных образовательных учреждениях. (Features of the accounting of income and expenses in private educational institutions.) <https://cyberleninka.ru/article/n/osobennosti-ucheta-dohodov-i-rashodov-v-chastnyh-obrazovatelnyh-uchrezhdeniyah/viewer>
7. Кравченко Елена Павловна. Учет поступления оплаты по договорам оказания образовательных услуг (Accounting for receipt of payment under contracts for the provision of educational services) <https://nalogido.ru/uchet-postupleniya-oplaty-po-dogovoram-okazaniya-obrazovatelnyx-uslug.html>
8. Drăgușin C. P. Managementul financiar contabil al instituțiilor publice de învățământ superior. (*Financial and accounting management of public higher education institutions*). Summary of the doctoral thesis. Craiova, 2015. http://mecanica.ucv.ro/ScoalaDoctorala_v/Temp/Rezumate/rezumat%20RO2%20Dragusin.pdf
9. Ilie I. S. Rolul contabilității în fundamentarea și execuția bugetului de venituri și cheltuieli. (*The role of accounting in substantiating and executing the revenue and expenditure budget. Financial-accounting approach*). Summary of the doctoral thesis. Iași, 2020. http://doctorat.feaa.uaic.ro/doctoranzi/pagini/Documents/Rezumat%20Ilie_Bunea_Silvia.pdf
10. Țurcanu L. Accounting problems in higher education institutions with financial autonomy (*Accounting problems in higher education institutions with financial autonomy*). In: International Scientific Symposium of Young Researchers Collection of selective articles. 16th edition, April 27-28, 2018, Chisinau. Chisinau, Republic of Moldova: ASEM Editorial-Printing Department, 2018, pp. 287-291. ISBN 978-9975-75-926-7.
11. Regulation on the manner of formation and use of revenues collected by the authorities / institutions subordinated to the Ministry of Education, Culture and Research, approved by Decision no. 872 of December 21, 2015 of the Government of the Republic of Moldova. In: Official Gazette No. 347-360 of December 24, 2015. https://www.legis.md/cautare/getResults?doc_id=111920&lang=ro
12. Regulation on the functioning of state higher education institutions in conditions of financial autonomy, approved by Decision no. 983 of 22.12.2012 of the Government of the Republic of Moldova. In: Official Gazette No. 270-272 of 25.12.2012. https://www.legis.md/cautare/getResults?doc_id=121883&lang=ro#
13. Education Code of the Republic of Moldova
14. <https://utm.md/administratia/raporturi-si-planuri-anuale/>
15. https://ase.md/files/documente/rapoarte/activitate_2018-2019.pdf
16. Fiscal Code of Russia <http://nalog.garant.ru/fns/nk/>