



## ARTICLE 9

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# A Comparative Study of Commercial and Government Accounting System

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### Abstract

The commercial accounting system is as old as commerce and business itself. Similarly, government accounting is also as old as the State. However, with the development of the company form of organization, there was a separation of ownership and management of the business. This accelerated the development of the theory of commercial accounting, which eventually developed into a separate field of academic discipline and an independent profession. With the shift from monarchy to democracy, there have been ample changes in the political and administrative system of the state. Here also, there has been separation of ownership (with citizens), supervision (with elected representatives) and management (with elected government) in a State. Hence, there is a need for accelerated development of the theory, academic discipline and profession of government accounting and auditing. The methodology suggested in this paper is to compare the study of commercial (corporate) and government accounting systems. This comparative study will help both systems adopt good practices from each other. The government accounting system can develop its theory and eventually develop itself into a separate academic discipline and a profession. As an illustration, a model of General Purpose Financial Statements for a State government has been given.

### Keywords

Commercial Accounting, Government Accounting, Profit Making Entity, Not-for-profit Entity, State, Separation of Ownership and Management and General Purpose Financial Statement.

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## 9.1 Introduction

The accounting system of any entity depends upon the nature and type of the entity concerned. Entities can broadly be divided into two types on the basis of their objectives, viz., profit-making and not-for-profit entities. Not-for-profit entities can be of two types, viz., State (or government) and non-government organizations. A state is an entity which has its own specified territory, citizens, government to perform legislative, judicial and executive functions, and sovereignty over its land and people (Weber, 1919). A nongovernment organization is a not-for-profit organization like a state, and it may have ownership over certain land, but unlike a state, its membership is voluntary, it does not have sovereign powers over its land and members and no coercive power to impose taxes.

## 9.2 Differences between State and Commercial Enterprise

A commercial enterprise and a State have many differences in their objectives, structure and functions as enumerated below:

- (i) The government of a State is a sovereign entity, but the commercial enterprise is not.
- (ii) The State represented by its government is a perpetual entity and cannot be wound up. In contrast, a commercial enterprise, though assumed as a going concern for accounting purposes, is not perpetual, and it can be wound up.
- (iii) The government has coercive power to raise its resources through taxes, but commercial enterprise does not have coercive power to raise its resources. The customers of commercial enterprises voluntarily purchase their goods or services by paying their market price (Drucker, 1954).
- (iv) The commercial enterprises have a profit motive as their objective (Samuelson et al., 2010), but the government is not a profit-making organization. Its motives are the security and development of the State and citizens' welfare with equity.
- (v) For commercial enterprises, an increase in profit is a measure of their performance (Drucker, 1954), but for a government, profit is not a measure of its performance (Laski, 1925). For the government, efficiency, economy, and effectiveness (Heywood, 2013) in the implementation of its policies and programs are the measures of its performance.
- (vi) Commercial enterprises are micro entities as the impact of their activities is limited to those who deal with them (Samuelson et al., 2010). However, the government of the State is a macro entity in the national economy (Heywood, 2013). The impact of government policies and programs is on all the citizens of the country, or the residents of the province concerned.

### 9.3 Differences between their Accounting Systems

As a consequence of the above mentioned differences, there are significant differences between commercial and government accounting systems, if government accounts are prepared on an accrual basis, which is the case in most of countries. The differences in their accounting systems are: -

(i) As the government is not a profit-making enterprise, there is no Profit and Loss Statement in government accounting in the same sense as in commercial accounting (Jones, 2000). There may be a statement of excess or deficit of revenue receipts over revenue expenditures in government accounting.

(ii) As the government is not a profit-making enterprise, there is no income concept in government accounting as there is in commercial accounting (Adams, 2018). Thus, there is no revenue recognition concept in government accounting. Taxes accrued and due are not shown as receivable in accounts, as these may be disputed in court, or these may be waived off by the government.

(iii) Government accounts are made on a cash basis, as there is no concept of income recognition in government accounting. However, commercial accounts are made on an accrual basis because of the concept of income recognition and the corresponding matching principle for the expenses incurred to earn that income during the period of accounting (Jones, 2000; Chan, 2003).

(iv) The concept of asset valuation and thus, depreciation accounting, is not present in government accounting (Jones, 2000), but these are essential concepts in commercial accounting to depict a true and fair view of a commercial enterprise's net profits, financial position and to declare dividends out of its net profits (Anthony et al., 2003).

(v) The concept of inventory valuation is not important for a government (Jones, 2000) but it is very important for a commercial enterprise to show a true and fair view of the results of transactions (that is, the profit or loss) for the period and its financial position at the end of the period (Anthony et al., 2010).

(vi) The concept of equity or capital fund is not there in government accounting (Adams, 2018; Jones, 2000), but it is very important in commercial accounting, to evaluate the financial stability and improvement in valuation of a commercial enterprise over the period (Horngren et al., 2002; Anthony et al., 2010).

(vii) As the government is a perpetual entity, there is no need for the going concern assumption in government accounting (International Public Sector Accounting Standard Board, IPSAS 1). However, for commercial accounting, the going concern assumption is very important for consistency in the financial reporting of the results and the financial position of business enterprises over the periods (Horngren et al., 2002; International Accounting Standards Board, IAS 1).

## 9.4 Similarities between State and Commercial Organisations

There are certain similarities between the two organizations.

### (i) Similar Functions of Accounting Systems for both the Entities

For both types of entities, accounting systems have dual functions, viz., (a) record keeping of their transactions and (b) the financial and economic analysis of data provided by their accounting statements for performance evaluation and decision-making.

### (ii) Separation of Ownership and Management

The commercial accounting and auditing developed fast (Hendriksen et al., 1992), as a result of the separation of ownership (with shareholders) and management of business enterprises after the industrial revolution (Scott, 2015). Similarly, the government accounting and auditing system needs to be developed quickly as the government has also evolved from a monarchy to a democracy. In a democracy, there is the separation of ownership of the state, which is with the citizens who delegate the oversight responsibilities to their elected representatives in the legislature (Flynn, 2012) and the management responsibilities of the state, which are with the citizens' representative executive government (Musgrave, 1959; Smoke, 2001). In a monarchy, ownership and management of the State were with the king or queen (Schumpeter, 1918). An advanced arrangement of government accounting and auditing was not there in the affairs of the State under a monarchy. These are very important in a democracy.

## 9.5 Mutual Exchange of good practices between the Government and the Commercial Accounting System

To improve both systems, adapting and using the good practices of each other can be done by both systems.

### 9.5.1 What Commercial Accounting and Auditing may gain from the Government System

(i) Commercial accounting and auditing system can gain from the government accounting, auditing, and accountability system. The primary responsibility of a commercial enterprise is towards its shareholders. However, the accountability of commercial enterprises is also towards the public at large because a business organization is important not only for its investors (shareholders) but also for its customers, who are the general public. Further, business enterprises also use natural and human resources, as well as the environment.

Green budgeting (Organisation for Economic Co-operation and Development, 2020) and accounting (Rubenstein, 1992), environment accounting (Gray et al., 1993) and auditing (International Chamber of Commerce, 1991) and corporate social responsibility (European Commission, 2001; Ministry of Corporate Affairs, 2013) are such practices being adopted by commercial organisations from government and social systems.

(ii) Commercial auditing can also take something from government auditing in respect of independence in the appointment of auditors (Levitt, 1998; Satyam Committee Report, 2009; Brydan, 2019), just like the independence of government auditors from the executive.

(iii) Issues such as Human Resource (HR) Accounting and Environment and Carbon Cost Recognition and Accounting are of common interest for commercial enterprises and the government. Both these areas pose the problems of measurement, internalization of externalities in decision-making, and standardisation of their disclosures in financial statements. Unlike physical assets, employees can resign or retire. This makes the capitalization of expenditure on human capital in the balance sheet problematic. There are negative externalities for the environment and carbon cost, and positive externalities for human capital cost. Both issues are very important for both commercial enterprise and government. Initially, efforts can be made to make standards for non-monetised quantitative reporting of these issues as additional information in financial statements. Gradually, efforts can be made to develop methods to assess turnover cost, training investment, employee productivity indices and enforceable carbon pricing in the Environment, Social and Governance (ESG) Reporting framework (Kharola et. al., 2025).

### **9.5.2 What Government Accounting and Auditing may gain from the Commercial System**

The government accounting and auditing system can take a lot from the commercial accounting and auditing system through a comparative study. Some of these areas are as below:

(i) Commercial accounting has a well-developed accounting theory that guides an accountant to prepare financial statements for its owners and the public. However, government accounting does not have a well-developed established theory (Mautz, 1988) as it is a new discipline that evolved especially after the spread of democracy. With the use of a comparative study with commercial accounting, a theory of Government accounting can be developed.

(ii) Commercial accounting and auditing is a well-developed academic discipline being taught in colleges and universities (Watts, 1986). However, government accounting and auditing as a discipline of study has not yet been developed enough (Carlin, 2005; Chan, 2003) and, therefore, is not being taught in colleges and universities in India. Through a comparative study, government accounting and auditing may also be developed as a separate discipline for academic study.

(iii) Commercial accounting and auditing is a well-developed profession at national and international levels (Willmott, 1986). At the national level, there are institutes like the ICAI, and the ICMAI to train, develop and regulate financial accounting and auditing and cost and management accounting and auditing professions in India. However, government accounting and auditing as a profession has not yet been developed (Chan, 2006).

There are Supreme Audit Institutions (SAI), like the Comptroller and Auditor General of India, in each country to guide government accounting and perform government auditing. There are government officials of the SAI, who perform government auditing. But these officials do not independently guide and bring awareness among the public, media, and the people's representatives, about the government's financial and economic transactions, evaluate them, and analyse their impact on the development of the country's economy and people's well-being. The independent profession of government accounting and auditing can work for its development as an academic discipline and a profession, to be taught at colleges and universities and practised as a profession. These professionals can independently comment upon the government's accounting, auditing, financial policies, financial management and performance and inform the people and their representatives about the impact of the government's plans, programs and activities. The Chartered Institute of Public Finance and Accountancy of the United Kingdom is the only professional body involved exclusively in Public Finance (Jones, et al., 2010).

(iv) The General Purpose Financial Statements (GPFS) of commercial enterprises are well developed in the form of Balance Sheet, Profit and Loss Statement and Cash Flow Statement. However, GPFS are not well-developed in government accounting (Chan, 2003). A statement showing the results of financial transactions of the government during the year, that is, revenue deficit or surplus, like a profit and loss statement in commercial accounting, is not well developed in government accounting. A comparative study may be used to develop such statements. An effort has been made in this paper to develop such statements for a government.

### **An Illustration: General Purpose Financial Statements for Government**

After comparing the formats of Statements 1 and 2 of State Finance Accounts with GPFS of corporate entities as given in Schedule 3 of the Indian Companies Act and AS 3 of ICAI, it is found that the necessary groupings of head of accounts are not there in Statements 1 and 2 of State Finance Accounts. If we borrow the groupings and format from corporate accounts for GPFS, there is going to be an improvement in the presentation of GPFS of governments, as given in the illustration in the Annexures 1, 2 and 3. [The data and the heads of accounts used to prepare these model GPFS for a government are taken from Statements 1 and 2 of the Finance Accounts of the Government of Chhattisgarh for the year 2023-24 (the Comptroller and Auditor General of India, 2024)].

v) The 'segment reporting' and the 'responsibility accounting' are well- developed concepts being practiced in financial and management accounting in commercial sector (International Accounting Standard Board, IFRS 8) but not developed in government accounting, though these may be useful in government sector for decision-making and control (Chan, 1987; Chan, 2003; Organisation for Economic Co-operation and Development, 2017 ; Government Accounting Reforms Committee, CAG & CGA, 2010).



vi) Even though the government accounts are prepared on a cash basis, the recognized and contingent liabilities are disclosed in its financial statements. For example, interest on GPF is credited in the employee's GPF account and debited in the interest account every year. Similarly, other liabilities can also be evaluated and disclosed in financial statements on the principle of conservatism, just like in commercial accounts. Therefore, the actuarial valuation of state-guaranteed future pension entitlements earned to date can be recognized in the financial statements of the government and can be funded through regular contributions to the pension redemption fund (IPSASB, IPSAS-49). Similarly, efforts can be made to evolve legally enforceable obligations for remediation of contamination, cost to restore ecosystems, and regular contribution to climate-related mitigation fund on the lines of the disaster management fund (IPSASB, IPSAS-19).

The Government Accounting Standard Advisory Board (GASAB) of the C&AG of India has issued a guidance note on Accounting for Fixed Assets. This recommends the preparation of a fixed assets register by all government entities on a pro forma basis. If this is done by all the departments, the problems of losing sight of government assets, their loss, deterioration and non-maintenance may be effectively tackled. GASAB has started bringing out annual Natural Resources Accounts for Minerals from the year 2021-22 and Water Resources Accounts from 2022-23. These efforts will help in the judicious use of natural resources and their conservation for future generations (GASAB, Guidance Note).

GASAB, through the Government of India, has issued Indian Government Accounting Standards on Guarantees (IGAS-I) given by the Central or State governments. This has also issued a draft for disclosure of Public Debt and other liabilities of Governments (IGAS-10). These standards are intended to disclose in the financial statements, the cost of repayment of today's debt financing and debt-fueled growth. Efforts can be made to develop models to calculate the present value of future contractual interest and principal payments under current debt stock (GASAB, IGAS-1, IGAS-10; European Commission, 2019).

## 9.6 Conclusion

A comparative study of the government accounting and auditing system with the commercial accounting and auditing system can be used to improve upon both systems, and to achieve the above-mentioned objectives. Especially in respect of the government accounting and auditing system, a separate theory, an academic discipline of study and an independent profession can be developed.

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## Data Availability

No new data has been introduced.

## Ethics Statement

This document meets the ethical guidelines and legal requirements of the country.

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## Conflict of Interest

None

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Annexure-1

1. Statement of Financial Position

Group	Liabilities	Reference (Sr.No.) Notes to Finance Accounts	Statement/A Appendix	As on 31 March 2024	As on 31 March 2023	Group	Assets	Reference (Sr.No.) Statement/ Appendix	As on 31 March 2024	As on 31 March 2023
I	Reserve, Surplus & Funds					I	Non-current assets			
	(A) Reserve and Surplus (Cumulative excess of Receipt over expenditure)	--	--	14,858.64	26,089.61		(A) Physical capital expenditure	5,16	1,42,807.57	1,27,105.51
	(B) Contingency Fund (Corpus)	--	21	100.00	100.00		(B) Financial investments		1,33,909.81	1,18,555.14
II	Non Current Liabilities					II	(i) Shares in Companies and Corporation			
	(A) Consolidated Fund			1,13,887.55	83,950.79		(ii) Loans and advances	5,8,16,19	7,232.91	7,172.06
	(i) Internal Debt						(A) Financial assets	7,18	1,664.85	1,378.31
	(a) Market Loans	--	6,17	86,032.09	59,732.09		(i) Cash		14,169.31	8,353.63
	(b) Compensation and other Bonds	--	6,17	609.17	696.18		(a) Cash in Treasuries and Local Remittances	--	0.00	0.00
	(c) Loans from Financial Institutions	--	6,17	5,891.42	5,263.21		(b) Departmental Balances	2,21	12.07	12.09
	(d) Special Securities issued to National Small Savings Fund	--	6,17	2,607.49	3,063.36		(c) Permanent Cash Imprest	2,21	0.34	0.34
	(ii) Loans and Advances from Central Government						(d) Cash Balance Investments	2,21	5,933.48	485.61
	(a) Non-Plan Loans	--	6,17	0.56	0.56		(e) Deposits with Reserve Bank of India	5(viii)	194.40	215.63
	(b) Loans for State Plan Schemes	--	6,17	1,761.20	2,001.05		(f) Investments from Earmarked Fund	--	7,656.95	7,334.30
(c) Loans for Central Plan Schemes	--	6,17	0.19	0.19	(ii) Advances with Departmental officers	21	7.10	7.00		
(d) Loans for Centrally Sponsored Plan Schemes	--	6,17	0.00	0.00	(iii) Remittance Balances	5(iii)	351.50	298.66		
(e) Other Loans (Pre 1984-85 Loans)	--	6,17	0.69	0.69	(B) Suspense and Miscellaneous Balances	--	0.00	0.00		
(f) Other Loans from Central Government					(C) Contingency Fund Expenditure (un- recouped)	--	13.47	0.00		
(B) Public Account	(i) Small saving, Provident Fund etc.			16,984.74	13,193.46					
	(ii) Deposits	--	12,17,21	10,848.71	9,326.98					
	(iii) Reserve Funds	--	12,17,21	6,405.35	6,146.92					
	(iv) Suspense and Miscellaneous Balance	5(iii)	12,21	181.93	238.80					
III	Current Liabilities					III	Reserve and Surplus (Cumulative excess of expenditure over receipt)			
	(A) Consolidated Fund			0.00	0.00					
(B) Public Account	(i) Ways and Means advances from RBI	--	--	0.00	0.00					
	(i) Remittance Balances	--	--	0.00	0.00					
	<b>Total</b>	--	--	<b>1,56,976.88</b>	<b>1,35,459.14</b>		<b>Total</b>	--	--	<b>1,56,976.88</b>
										<b>1,35,459.14</b>

Annexure-2

2. Statement of Revenue Receipts, Expenditure and Revenue Surplus /Deficit

Revenue Expenditure	Reference (Sr.No.) Notes to Finance Accounts	2023-24	2022-23	Revenue Receipts	Reference (Sr.No.) Notes to Finance Accounts	2023-24	2022-23
<b>I State Expenditure</b>				<b>I Own Revenue</b>			
<b>A. Committed Expenditure</b>				<b>A. Tax Revenue</b>			
(i) Salaries	--	27,669.25	24,967.33	(i) Own Tax Revenue	--	77,268.10	65,480.57
(ii) Pension and other Retirement Benefits	--	9,111.82	7,661.46	(ii) Share of Union Taxes/Duties	--	38,786.22	33,122.31
(iii) Interest Payment and Servicing of Debt	--	7,213.34	6,782.08	<b>B. Non-Tax Revenue</b>			
(iv) Subsidy	--	10,796.88	8,306.28	(i) Interest	--	15,147.97	15,248.24
<b>B. Other Expenditure</b>				(ii) Others	--	14,972.81	200.75
(i) General Services	--	18,880.01	16,266.97				
(ii) Social Services	--	3,439.14	4,763.85				
(iii) Economic Services	--	4,469.15	4,103.30				
(iv) Grant-in- Aid	--	48,188.96	25,734.73				
(v) Others	--	2,554.85	1,823.43				
<b>II Compensation and Assignments to Local Bodies and Panchayati Raj Institutions</b>				<b>II Grants-in-Aid from Central Government</b>	--	11,092.13	13,148.33
		0	8,592.11	<b>III Revenue Deficit</b>			
<b>III Revenue Surplus</b>							
<b>Total</b>		<b>1,14,740.96</b>	<b>93,877.14</b>	<b>Total</b>		<b>1,14,740.96</b>	<b>93,877.14</b>

**Annexure-3**  
**3. Cash Flow Statement**  
**(Statement of Fiscal Deficit and the Sources of Financing of Fiscal Deficit)**  
**(in crore)**

Sl. No.	Parameters	2023-24	2022-23
<b>(A) Sources of Fiscal Deficit</b>			
<b>I Cash flow from Revenue Activities</b>			
<b>i</b>	Revenue Surplus (+)/ Deficit (-)	-11,232.76	8,592.11
<b>II Cash flow from Investing Activities</b>			
<b>i</b>	Net Capital Expenditure	<b>-15,413.92</b>	<b>-13,314.70</b>
<i>a</i>	<i>Capital Expenditure</i>	15418.93	13,320.30
<i>b</i>	<i>Miscellaneous Capital Receipts</i>	5.01	5.60
<b>ii</b>	Net Loans and Advances disbursed	<b>-286.35</b>	<b>31.38</b>
<i>a</i>	<i>Disbursement of Loans and Advances</i>	311.96	85.86
<i>b</i>	<i>Recovery of Loan &amp; Advances</i>	25.61	117.24
<b>Fiscal Deficit</b>		<b>-26,933.03</b>	<b>-4,691.21</b>
<b>(B) Financing of Fiscal Deficit</b>			
<b>III Cash flow from Financing Activities</b>			
<b>A Consolidated Fund</b>			
<b>1</b>	<b>6003 -Internal Debt (net)</b>	<b>26,385.33</b>	<b>-2,431.78</b>
<i>a</i>	<i>Internal Debt Receipt</i>	50258.44	6,938.61
<i>b</i>	<i>Internal Debt Repayment</i>	23873.11	9370.39
<b>2</b>	<b>6004 - Loans from Government of India (net)</b>	<b>3,551.43</b>	<b>3,469.80</b>
<i>a</i>	<i>Loans from GoI Receipt</i>	3791.28	3,700.13
<i>b</i>	<i>Loans from GoI Repayment</i>	239.85	230.33
<b>B Public Account</b>			
<b>1</b>	Small Savings, PF etc.	1521.73	1,306.48
<b>2</b>	Reserve Fund	766.01	-181.39
<b>3</b>	Deposits and Advances	258.33	360.77
<b>4</b>	Suspense and Miscellaneous	-5504.71	2,955.88
<b>5</b>	Remittances	-52.85	37.56
<b>C Contingency Fund (net)</b>		<b>-13.47</b>	<b>0.00</b>
<b>Overall Deficit</b>		<b>26,911.80</b>	<b>5,517.32</b>
<b>D Increase (-)/Decrease (+) in Cash Balance</b>			
<b>a</b>	<i>Opening General CB</i>	215.63	-610.48
<b>b</b>	<i>Closing General CB</i>	194.4	215.63
<b>Gross Fiscal Deficit</b>		<b>26,933.03</b>	<b>4,691.21</b>