

Construction of Government Comprehensive Financial Report Analysis Index System

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Abstract

With the implementation of government performance evaluation and the public call for information, in order to alleviate the current situation of information asymmetry between government financial information provider and information demander, improve the government's financial management capabilities, accrual basis accounting is introduced into government accounting system, which expands the content and scope of government financial report, and provides basic data and conditions for analyzing the government's financial situation and operations. Based on the theories of stakeholder and information transmission, this paper explores the construction of the government's comprehensive financial report analysis index system from the perspectives of financial ability, debt paying ability, profitability and service ability, so as to meet the government's macro decision-making needs and improve the government's fund management level.

Keywords

Government financial report, Information user, Analysis index.

1. Introduction

For a long time, China's government accounting has adopted the budget accounting model based on the cash basis, which can only reflect the budget income and expenditure of financial funds and a small amount of assets and liabilities information. It is difficult to meet the basic information demands of the government for economic decision-making and performance management, neither meet the requirements of government information disclosure. In 2014, the government accounting reform was launched, introducing the financial accounting model based on accrual basis, generating government final accounts and comprehensive financial report at the end of the term, and establishing a dual-function accounting system with "process control" and "concept summary"[1]. Government accounting is no longer the original "running account", which requires the simultaneous analysis of the government's comprehensive financial report. Since the financial report is prepared for users to read, Therefore, it is necessary to understand the users of financial reports and their information demands. Government financial accounting can make up for the information loopholes in budget accounting and provide better use experience for government financial information users, improve the government's governance level and governance capabilities.

2. Users of government financial information

Government financial reports enrich and summarize financial information. The users of financial information are the parties that have an interest relationship with accounting entities. There are two types of accounting entities in accounting: government and enterprises. As a public service agency and national management department, potential information users include all stakeholders involved in government activities. In addition to the government's financial department and competent agency at the same level, there are people's congress, investors and creditors, taxpayers, social media,

suppliers, project managers, third-party investment evaluation agencies. With the rapid development of globalization, China has more frequent exchanges with foreign governments and international organizations, and their demand for government financial information has become increasingly stronger[2]. According to the intensity of users' demands for financial information, they are divided into three categories: primary users, medium users, and general users.

2.1 Primary users

The primary users refer to the information demanders who directly make decisions, operate and manage the government funds in the government and relevant organizations, including financial departments and competent agencies of governments at all levels. On the one hand, they need to get the information of local economic and social development status for decision-making judgement and macro-policy making; on the other hand, they also need to understand the current financial risks and capital operation processes faced by the government, and evaluate government operational performance. Such users not only have information needs, but also control the government financial information. The primary users are both the demander and provider of information, who determine the information availability of other information users.

2.2 Medium users

Medium users refer to those who are not directly involved in the government financial information compiling and reporting, but take advantage of government financial information for economic and political decisions, or through the monitoring and evaluation of government behavior to influence the government policy, including the National People's Congress at all levels, project managers, investors and creditors. Among them, creditors pay more attention to debt information, such as debt size, structure and solvency, and analyze the disposable resources and debt sustainability from the asset and liability information of the government financial report. This kind of users have the middle information acquisition ability, and they can obtain the information they want through certain means. At the same time, general users can infer relevant government financial information based on the decisions of middle users, so middle users are also transmitters of information.

2.3 General users

General users refer to those who do not control the preparation of government financial information, nor do they need government financial information to make decisions, so they pay few attention to government financial information, except in a certain way or at a certain point in time, including the public, media, experts and scholars. Compared with the previous two types of information users, this type of users only have the unity and purpose to meet their specific information needs, and are in a passive position in obtaining information. The positions of the three types of information users in information demand and supply are shown in Table 1.

Table 1 Comparison of three types of information users

Genre	Information needs	Messaging role
Primary users	Strongest	Providers and users
Medium users	Medium	Users and transmitters
General users	Weakest	Passive users

3. Demands of users on government financial information

It can be inferred from the coverage of government financial information users that the information demands of different information users vary greatly and the concerns are different. According to governmental functions, and combined with the relevant research results of the China Academy of Fiscal Sciences, Jilin and Guangdong Provincial Department of Finance, the government capabilities that users care about are divided into four types: financial capability, debt solvency, profitability, and service capability.

3.1 Financial capacity

Financial capacity needs to be judged by the comprehensive financial status of the government, such as the ratio of assets to liabilities, the proportion of various assets and the structure of liabilities, which are the key concerns of government organs and financial departments. They can not only evaluate the level of government performance, but also provide a basis for decision-making.

3.2 Debt solvency

Debt solvency includes short-term liquidity of funds and ability to pay in the mid-long term. In recent years, the risk of government debt has been increasing, and almost all information users are concerned about the solvency of the government. The Ministry of Finance need to master all debts to formulate bond issuance limits and debt management, local governments need to spend on special projects and issue bonds, buyers of government bonds care whether the principal can be safely repaid and the expected return will reach the agreed interest rate.

3.3 Profitability

PPP projects and government-purchased service projects have huge amounts of funds with long durations, and involve trans-year fund management. Government departments and project managers need to understand the effectiveness of project funds, analyze project profitability, and establish inter-period budget balance mechanism.

3.4 Service capability

Service capability refers to the government's ability in public services such as infrastructure, medical care, education, social security, and ecological environment. It is the entrance for taxpayers and the public to exercise democratic supervision rights. The improvement of medical education, the convenience of transportation and the improvement of social welfare.

4. The meanings of government comprehensive financial report analysis

Under the original budget accounting model, the business activities of the government can only be reflected by the economic flow information of the income and expenditure in a fiscal year through the factors of budget income, budget expenditure and budget balance [3]. A small amount of assets and liabilities information is confirmed due to budgeted income and expenditure. The government financial information that can be disclosed is insufficient, and financial information analysis system has not been established. The comprehensive government financial report prepared on the basis of accrual basis can make up for financial information loopholes, which is conducive to objectively evaluating the government's financial status and operations, alleviate the contradiction between the users' increasing demand for information and the limited information provided by the government.

4.1 Expand the purposes of government accounting

The purpose of budget accounting analysis is limited to meeting the needs of budget management, without establishing the concept of government financial management, while the government financial accounting has newly incorporated the external fiduciary responsibility and the decision-making usefulness, the accounting confirmation takes the business ownership period rather than the cash receipt and payment as the standard, therefore, the basic accounting work is more meticulous, the financial statement can reflect the whole financial status and operation of the government more truly and comprehensively.

4.2 Improve the consistency of information

Financial accounting is different from budget accounting that only focuses on the revenue and expenditure of a single fiscal year. The accrual system of government balance sheets can provide economic stock information, reflect the cumulative value changes of previous business activities and the government's ownership at a fixed time. The amount of assets, liabilities and net assets provides information users with more complete, continuous and systematic financial information.

4.3 Facilitates multi-angle analysis

Under the government's financial accounting system, we can accurately grasp the real assets and debts of the government by using proper methods to calculate depreciation or impairment of assets and provision bad debts for accounts receivable, which is convenient to analyze the debt solvency. In addition, government financial accounting has expanded the types of asset accounting, which can be analyzed by various methods and from different perspectives to meet users' diversified information demands.

5. Construction of government comprehensive financial report analysis index

As an integral part of accounting, government accounting can learn from the experience of corporate financial analysis, but the business objectives of governments and enterprises are different, the composition of government financial accounting elements and financial reports differ from those of enterprises, either. The principles that should be followed to construct analysis index include purpose orientation, local conditions, quality and quality, and relative stability [6]. Based on users' demands for government financial information, this paper constructs a financial report analysis index system based on the government's financial ability, debt solvency, profitability and service capability.

5.1 Financial capacity analysis indexes

This part of the indexes should reflect the rationality of the government's fiscal budget, the relationship between fiscal revenue and GDP, and the overall financial situation of the government.

(1) Annual increase liabilities rate = Annual increase liabilities \div GDP \times 100%. This index reflects financial soundness and sustainability.

(2) Fiscal revenue elasticity coefficient = Fiscal revenue growth rate \div GDP growth rate. This index reflects the impact of GDP changes on fiscal revenue.

In addition, the government's fiscal capacity analysis also needs to be combined with budget analysis indexes, such as: fiscal revenue and expenditure ratio (fiscal revenue / fiscal expenditure) to measure the rationality of the fiscal budget, fiscal revenue completion rate (actual fiscal revenue / fiscal revenue budget) and fiscal expenditure completion rate (fiscal expenditure / fiscal expenditure budget), the higher rate, the better budget completion.

5.2 Debt solvency analysis indexes

This part can be used for reference the indexes of enterprise financial analysis.

(1) Asset-liability ratio = (Total liabilities \div Total assets) \times 100%. This index is used to measure the scale of government debt.

(2) Short-term debt ratio = (Debt due within one year \div Total assets) \times 100%. The rationality of government debt maturity can be measured by this index.

(3) Current ratio = Current assets \div Current liabilities, Cash ratio = Monetary funds \div Current liabilities. The higher the ratios, the stronger the government's short-term solvency.

(4) Interest coverage ratio = (Cash flow from operating activities + Interest expense) \div Interest expense. This index reflects the multiple of the government income to pay the debt interest, which is the performance of the government's ability to repay the debt interest.

(5) Debt-payable financial resource ratio = (Current assets + Investment assets) \div Liabilities \times 100%. Some of the non-current assets held by the government cannot be used to pay debts, such as custody assets and operational assets. Only current assets and investment assets are financial resources available to the government [7]. The more resources, the higher the ratio, the stronger the government's solvency.

5.3 Profitability analysis indexes

The profitability of the government can be analyzed through the following indexes:

(1) Net present value = Present value of project cash inflow - Investment amount;

(2) Earning power of real assets = Profit after tax \div Investment amount;

(3) Investment profit tax rate = (Profit after-tax + Tax payable) \div Investment amount.

Analysis of government cost control and efficiency indexes include:

(1) Income expense ratio = Total expenses \div Total income \times 100%. This indicator reflects the government's cost control;

(2) Accounts receivable turnover = (Credit sales revenue + Finance revenue) \div Average balance of accounts receivable;

(3) Days sales outstanding = 365 \div Accounts receivable turnover. These two indicators need to be combined with the notes of financial statements, the aging and composition of the debtor should be analyzed separately to be able to truly understand the scale and quality of the government's due payment [8].

5.4 Service capability analysis indexes

The public pays close attention to the performance of the government's public service functions. The government's expenditure on purchase service assets can directly measure the government's service potential. Service assets are public infrastructures that the government is responsible for managing and maintaining, free for the public to use, and government reserves that are freely distributed to the public during natural disasters. Specific indexes include:

(1) Proportion of service assets = Service assets \div Assets \times 100%.

(2) Service assets per capita = Service assets \div District resident population.

(3) Service asset-liability ratio = Liabilities \div Service assets \times 100%.

(5) Annual growth of service assets and liabilities = annual debt increase \div annual service asset increase \times 100%.

The first two indicators reflect the government's ability to serve contemporary people, and the latter two indicators represent the debt-servicing responsibilities that the current government has left to future generations.

6. Conclusion

By analyzing demands for government financial information, combining with the available data in current financial statements, this paper constructs a comprehensive government financial report analysis index system based on users' demands. However, government financial analysis is related to the national economy, so it is necessary to integrate the relevant data from the audit department and the statistics department to build a more comprehensive, complete and systematic indicator system.

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