Implementing Reforms in Public Sector Accounting

Susana Jorge
Editor

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THE IMPACT OF DATE OF RECOGNITION ON THE CONSOLIDATED ACCOUNTS: FROM RELIABILITY TO RELEVANCE

Introduction

To improve the quality and relevance of accounting information, and to develop a uniform accounting system, in 1996 the French government imposed new public accounting standards on all components of the Social Security System, with the transition to accrual accounting. Adoption of the new accounting standards in the social security bodies has seen the emergence of the notion of recognition of an event for accounting transactions. An event for a transaction is the event that triggers, either immediately or later, a monetary transaction; it is, therefore, the date of creation of a transaction for which payment will occur subsequently. If the definition of recognition of an event is relatively well established in the framework of a profit-oriented activity, it looks more complex for a Social Security body where several dates or recognition of events could be validly selected.

The determination of the date of recognition for a transaction will have implications for the assignment of revenue and expense to the year, and therefore the deficit. At year-end, transactions that arise in that year but for which collection or payment has not yet occurred are recognized in the year under receivables (claims), provisions or payables (liabilities). Accordingly, the transition to accrual accounting requires that items of expense and revenue be recognized in the same year as the creation of the event. The actual period-end accruals transactions will therefore be different depending on the date of recognition chosen, and this can have a significant impact on the financial information released.

This paper aims to assess and analyze the impact of the choice of date of recognition on financial information, and particularly on its reliability and relevance for decision making. In order to define the conceptual framework of our study, the first part of the paper reviews the various dates of recognition usable for the Social Security System, their impact on the quality of information provided, and the relevance of the recommended solution. The practices of the various national funds in the Social Security System are also discussed; the lack of a uniform date of recognition for transactions across funds introduces biases in the information released. The second part sets out the paper's hypotheses and methodology. A three-year financial simulation measures the impact of the date of recognition on financial information released, and more specifically the impact on the profit and loss account of the Social Security fund. The policy implications of a change in the date of recognition are also discussed.

1. Presentation of the Research Question: the Impact of Date of Recognition on Measurement Reliability

1.1. From the usefulness of accounting information to the date of recognition

Much of the literature over the past decade investigating the usefulness of accounting information focuses on the criteria required for the information to be utilizable. Accounting information is defined as numerical data relating to past, present or future economic performance of an entity, based on observation in compliance with established rules (Burns and McKinnon, 1993)[1]. Accordingly, accounting information is quantitative data generated in compliance with predetermined standards. Even if accounting information, under this definition, tends to be restricted to cash flows (in cash-basis accounting), it must also be understood in terms of flows based on accrual accounting in order to determine the economic value of a firm (Bierman, 1992). Accounting statements are intended to communicate accounting information and present accounting information intended to allow third parties to judge the firm's operations and management. Furthermore, the preparation of accounting statements in compliance with appropriate standards will provide a useful image of the firm if the accounting information is presented in a uniform manner (Caillau, 1996).

To maximize usefulness for decision-makers, the accounting information contained in the accounting statements must have two fundamental qualities: relevance and reliability[2]. If either of these two 'qualitative' aspects of the accounting information is compromised, which can be the case, for example in the presence of a crisis of confidence (Evraert and Trebucq, 2003; Haddad and Khater, 2007), the information is no longer useful for decision-makers.

- To be relevant[3], information must be able to enhance decision making by helping the user of accounting statements to judge past, present and future actions, and by confirming or correcting his expectations. As a consequence, the information must be able to reduce the inherent uncertainty in a situation, must be prepared and released in good time, and must have both predictive value and confirming

[1] As mentionned by Burns and McKinnon (1993), the definition stems from the American Accounting Association.

[2] FASB (Financial Accounting Standards Board) (1980), Qualitative Characteristics of Accounting Information, *Statement of Financial Accounting Concepts*, N. 2, p. 21.

[3] The IASB definition was discussed in July 2006 in 'Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information', Discussion paper, July 2006. This definition is the same as the one proposed by the FASB in 1980.

value. According to Evraert (2000), relevance is a subjective notion that varies with each user and with the decisions to be taken.
- To be reliable, information must be free from significant bias and errors, and must provide a fair, neutral and verifiable image of what it is supposed to present. Evraert (2000) underscores the objective nature of reliability, when it is based on conformity with standards, rules and procedures.

Relevance and reliability are two parameters that must be weighed against the time factor: information that is reliable may no longer be relevant if provided too late, and inversely, how useful is 'relevant' information if it is based on unreliable elements? (See the IASC conceptual framework). The two parameters were not always clearly identified in the studies conducted prior to the implementation of accrual accounting in the Social Security system; this is now posing a number of difficulties in the operational implementation of recognition of the events.

The transition to accrual accounting in 1996 introduced the notion of recognition of an event for Social Security. In cash accounting, items are recognized at the time of payment. But accrual accounting, which recognizes receivables and payables, raises the question of the date of creation of the entitlement to benefits, and the date chosen for recognizing transactions. The choice of date of recognition will have an impact on the content of the financial statements. Two parameters must be considered: Does the specified date of recognition allow the presentation of information that is (a) relevant and (b) reliable.

No review of the literature on the 'date of recognition' (*fait générateur*, literally 'originating event') in public sector accounting can be undertaken, because research on the concept is virtually nonexistent; all that is available are a number of definitions of 'date of recognition' proposed by various national and international bodies. The international comparative studies fail to address this highly technical issue, which is nevertheless essential regarding the content of the information released; the comparative studies focus on the items included in the accounting statements (e.g., the nature of assets and liabilities) but not on the date those items are recognized.

1.2. The impact of the date of recognition on information reliability

1.2.1. Brief historical review of the choice of date of recognition in the Social Security System

In 1990, the Social Security Accounts Commission (CCSS) commissioned a report on "Consolidation of the accounts of social security bodies"[4]. The report addressed the feasibility of accrual accounting and explained that similar transactions must be recorded using the same accounting principle; the use of the same date of recognition for each type of transaction across all the schemes facilitates consolidation, in which large numbers of reciprocal transactions are eliminated. The report stated that the accounts

[4] Report by the group chaired by Robert Mazars, December 1990.

of the various bodies should be prepared as soon as possible after year-end, in order to serve in decision making. The report recommended identifying ways to accelerate the production of the accounts of the various bodies, and of the consolidated accounts; it was specified that accrual accounting should not increase the time to produce the accounts. The report added that accrual accounting may involve estimates[5].

In 1996, the CCSS issued a new report on "accrual accounting methods"[6]. The report indicated that the establishment of provisions for expenses and receivables relating to transactions executed after year-end required the development of statistical methods. It therefore explained that the deficit for the first years after the change would be based on conventions and that the use of statistical methods presupposes the acceptance of a degree of uncertainty in the accounts; the uncertainty would be all the greater as the methods used were new and the observation period limited, but with greater experience, the degree of uncertainty should gradually diminish. The statistical allocation affecting the accounts was to be done in the framework of the consolidation process. The report recommended that contributions for the employed persons scheme be booked on the basis of employers' statements, while contributions for the self-employed persons schemes were to be booked on the basis of the calls for contributions sent out by the funds to the contributors; in the latter case, the Group decided against assigning regularizations to the corresponding prior years because of the fluctuating nature of the regularization amounts. Thus, even at that stage, there was a divergence in the date of recognition chosen, with two approaches depending on the scheme and the related technical constraints.

In September 2006, in its Preparatory Report on the Certification[7] of the Accounts of the Social Security System, The Court of Accounts (*Cour des Comptes*) pointed to a lack of clarity in the consolidated accounts of most of the national funds, essentially in the Notes to the accounts[8] concerning regularizations. For example, the 2005 consolidated accounts of ACOSS provide little explicit information on how receivables and provisions are calculated (partly using statistical methods). The Court

[5] The Group indicates that the application of the principle of accrual accounting for URSSAF (family allowances) would mean recognizing the January instalments relating to the salaries for December and for the last completed quarter of the year of reference. But the information from contributors' reports will not be known before the start of February, so the 'complementary period' for the basic level of 'collections management' would have to be extended until mid-February to gather the information needed for the implementation of accrual accounting.

For the family allowances branch, January payments to beneficiaries would be recognized in the year insofar as they correspond to entitlements for December. For the sickness and old-age schemes, awards of claims relating to health care claims and benefits would be booked to the year. Because of pending claims, a provision would be booked to cover applications received but not processed by year-end. It appeared technically feasible to perform those operations.

[6] Final report of the working group chaired by Alain Deniel, *Conseiller Maître* at The Court of Accounts (*Cour des Comptes*), *Laurent Gratieux rapporteur*, February 1997.

[7] The new Organic Law provided for certification of the 2006 accounts of the Social Security general scheme in 2007. Pending such certification, The Court of Accounts reviewed the financial statements of the national funds and the consolidated accounts of the Social Security general scheme from March to May 2006 in order to present, in September 2006, a Preparatory Report on the Certification of the Accounts of the Social Security System.

[8] Under accounting law, the Notes to the financial statements are an integral part thereof.

of Accounts nevertheless observed that the move to accrual accounting generally does not increase the time required to prepare the consolidated accounts, for a majority of the social security bodies. The need to supplement or modify the existing list of date of recognition led to the 2001 revision of the Uniform Chart of Accounts for Social Security Bodies (PCUOSS). Decided by the National Accounting Council (*Conseil National de la Comptabilité*, *CNC*), this revision of the PCUOSS is part of the constant concern to fully comply with accrual accounting. The Court of Accounts has repeatedly noted[9] difficulties in full implementation of accrual accounting for numerous social security bodies - difficulties evidenced by a lack of transparency in some of the accounting data. The new version of the PCUOSS, which is currently being finalized by the permanent accounting mission (*Mission Comptable Permanente des Organismes de Sécurité Sociale*, MCP), seeks to improve the content and the relevance of accounting information.

1.2.2. The impact of the time factor in the recognition of an event

The concept of date of recognition can be analyzed through a number of filters.

- After the adoption of accrual accounting in 1996, the Social Security bodies began to book accounting transactions based on the date of creation of the entitlement to benefits; this will be called the 'primary date of recognition' (primary DR).
- The earlier cash-basis accounting method applied through 1996 by the Social Security bodies entailed recognition of accounting operations as of the date of collection or disbursement; this will be called the 'tertiary date of recognition' (tertiary DR).
- Could an alternative event have been chosen, which we will call the 'secondary date of recognition', corresponding to the date of the declaration of contributions or benefits received?

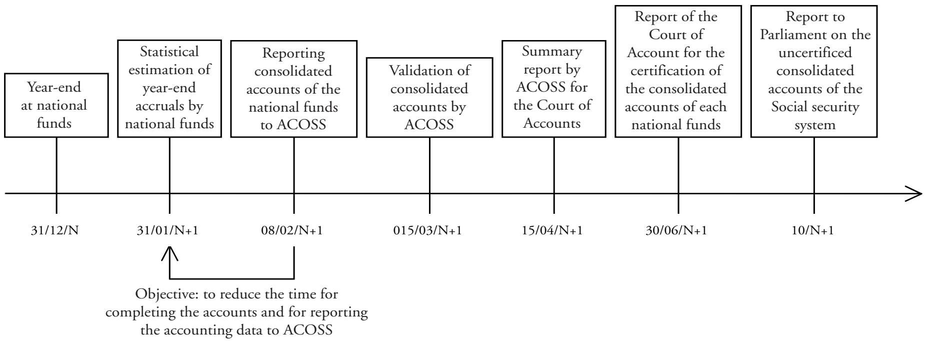
The Social Security production cycle is entirely dependent on the activity of its contributors and claimants (beneficiaries): the Social Security System itself does not initiate its revenue and expense transactions, and is thus dependent on its environment. The booking of Social Security transactions can then refer to the date of creation of an entitlement (health care, situations or income), which corresponds to the primary date of recognition of the event; or to the due-for-payment date, which corresponds to the declaration of contributions (claim for benefit or receipt of the summary statement of contributions) or the 'award of the benefit' (i.e., the processing of the statements of contributions and claims for benefit), which corresponds to the secondary date of recognition of the event. Two dates of recognition can then be envisaged in accrual accounting:

[9] The standard for sovereign revenues aims to ensure that State revenues are booked in compliance with the general principles of accrual accounting. Sovereign revenues correspond to transactions with no direct equivalent exchange for other parties. In this respect, they are a specificity of the State, and there is no equivalent in business accounting. Examples are taxes, fines and other penalties.

1. Choosing the due-for-payment date (secondary date of recognition of the event) places us within the Social Security production cycle: contributions registered in one year are used to pay the reimbursements and the benefits claimed or awarded in that year. Social Security is able to recognize all the information it receives with certainty, because revenues will be booked as contributions are declared, and expenses as claims for reimbursement or benefits from claimants are received and awarded. Period-end accruals are more limited than in the following case, and the data booked are more reliable in that they are based on actual documents, i.e., statements.
2. Choosing the date of creation of an entitlement (primary date of recognition of the event) means that the Social Security takes a date of recognition of the event symmetrical to what enterprises do when they recognize, say, social contribution expense pertaining to the period worked; and the date of recognition of the event for benefits would be the date of the delivery of the health care service, or would be a function of individuals' situations. However, the lead times for declarations of contributions or for claims would require substantial period-end accruals entries (payables, receivables, provisions for risks and expenses); and, insofar as the Social Security System wishes to publish its accounts rapidly, those entries are based on statistical estimates of the actual basis for contributions or benefits. Those difficulties vanish, however, if the accounting records are prepared taking the lead time for declarations into account, and if as a result the statistical calculations incorporate the statements filed by contributors and claimants. But improving the reliability of the statistical data by incorporating the declarations would prevent the Social Security accounts from being published in time for the budgetary process and the annual vote on the law on the financing of Social Security.

Accordingly, to continue to use the primary date of recognition of the event while also publishing reliable information, the lead times would have to be extended, which is incompatible not only with the budgetary process, but also with the constraints for completing the accounts arising from the procedure for certification of the Social Security accounts (Organic Law 2005-881 on Social Security, of August 2, 2005). The period-end accruals transactions (statistical estimates of the expenses and revenues to be recognized in the year) for a year ended 31/12/N must be completed by January 31 of year N+1 for all the national funds to report their consolidated accounts to ACOSS (*Agence centrale des organismes de sécurité sociale*, i.e., the central agency for social security funds) on February 8 of year N+1. This process leaves just over a month for ACOSS to validate the consolidated accounts, so it can forward them on March 15 of year N+1 to The Court of Accounts for certification. The report of the Court of Accounts is released on 30 June of year N+1 (Figure 1).

Figure 1 – Process for transmitting information to ACOSS



Do time constraints for completing the accounts and for reporting the information impose the choice of date of recognition of the event, when one wishes to limit the related uncertainty? Would it not have been more advisable for Social Security to opt for the secondary date of recognition of the event, which would yield more reliable information because of its ability to meet the time constraints, unlike the primary date of recognition of the event? Such, in any event, is the pragmatic choice that central government has privileged.

The French central government has made the choice of date of recognition of the event contingent on the reliability of the information obtained. Central Government Accounting Standard N. 3 on sovereign revenues[10] indicates that "Sovereign revenues are recognized in the year in which they are 'earned' by the State, as long as the revenues for the year can be reliably measured." The date of recognition of the event would be, for instance, the realization of the taxable base (for taxation). The primary date of recognition of the event is therefore to be privileged. But, when it is impossible to meet the condition of reliable evaluation of revenues, the due-for-payment date (secondary date of recognition of the event) is to be privileged if it yields more reliable accounting data. In that case, the recognition of the event would be, for instance, the tax return. Consequently, depending on the date of recognition of the event chosen, the item is booked either to the date of creation of the obligation, or on the date of declaration (the tax return).

To what extent could Social Security bodies apply the principle of Central Government Accounting Standard N. 3, which would limit their work on period-end accruals, which are essentially based on estimates? This would have two benefits: shortening the lead time for reporting the consolidated accounts (from February 8 to January 31) and providing more reliable accounting information.

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[10] Central Government Accounting Standards, 2004, *Ministère de l'économie, des finances et de l'industrie*, p. 52 (p. 53 in the original French version).

The issue of sovereign revenues is also under discussion at the IPSASB[11], which recognized, at the end of 2005, the need for further examination of the notion of date of recognition for Social Security bodies[12]: does the recognition of an event occur when the individual meets the criteria for eligibility for a benefit, or at an earlier stage? This issue is addressed by our analysis above regarding the impact of the time factor on the recognition of an event.

Similarly, Exposure Draft 29 on "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)"[13] prepared by the IPSASB particularly concerns Social Security entities. The exposure draft seems to adopt U.S. conceptual standards under which revenue from non-exchange transactions (mandatory contribution) must be recognized when it is probable that the inflow of resources will occur and their fair value can be measured. This approach tends towards the conceptual standards adopted by France and New Zealand. If ED29 is approved, entities adopting the IPSAB standards would have 5 years to comply.

It thus appears that the debate over standards is far from being decided, as the weight of technical constraints (reporting the information) and time constraints (the date for completing the accounts) has prompted pragmatic choices by the Social Security bodies.

1.3. Date of recognition used in practice

The PCUOSS (Uniform Chart of Accounts for Social Security) privileges the primary date of recognition for Social Security bodies. In practice, however, the position is far more ambiguous; primary and secondary dates of recognition of the events are observed to co-exist within Social Security bodies. This is examined in the following sections, which cover (1) the treatment of revenues (by the 'collections branch'), (2) the treatment of expenses (by the 'national funds') of the Social Security bodies, and (3) the decisions that have been privileged in actual practice.

1.3.1. The date of recognition for revenues (collections branch)

In 1996, numerous discussions centred on the choice of date of recognition, given the difficulties in implementation in the pre-existing Information Systems.

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[11] The IPSAS Board, under the authority of the International Federation of Accountants (IFAC), has prepared International Public Sector Accounting Standards (IPSASs) for accrual accounting, which is convergent with the IFRSs, but adapted to the public sector.

[12] Or an equivalent whose value does not correspond approximately to the value of the goods and services supplied. For the same reasons, the field of application of IPSAS 15, "Financial Instruments: Disclosure and Presentation" excludes Social Security bodies. The same holds for IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", which can, in no case, apply to provisions for social security benefits supplied by a body when the body does not receive any equivalent directly from the beneficiaries in return.

[13] ED 29 "Revenue from Non-exchange Transactions (Including Taxes and Transfers)", comments by Johan Christiaens, Ghent University, February 8, 2006.

Three proposals emerged: the due-for-payment date, the period worked, and the payment of salary. Accounting Agency of the Social Secutrity bodies (ACOSS) Circular Letter N. 96/81 of September 24, 1996 indicates that the payment of salary is preferred to the period worked as date of recognition for Social Security contributions, following a request from the Ministry of Social Affairs[14].

ACOSS Circular Letter N. 96/82, of September 24, 1996, confirms the date of payment as the date of recognition for employer contributions. That Circular Letter indicates, however, that the following are recognized in the year they are due for payment:

- Flat-rate contributions (Voluntary insurance, Personal insurance);
- Contributions by paramedical personnel;
- Provisional and definitive contributions by self-employed persons (TI).

It also sets out the rules for recognizing revenues for special cases, such as reductions or cancellations of fines and penalties, write-offs, forgiveness and cancellations, which must be recognized in the year of the date of decision. Thus, for revenues, two different dates of recognition of the events co-exist, depending on the contributors: for employed persons' contributions, the date of recognition of the event is indeed the payment of wages, whereas for the other categories of contributors, the date of recognition of the event is the due-for-payment date (and therefore the annual declarations); there is no calculation of receivables. This position is actually based on a trade-off between account reliability and relevance. If the date of recognition of the event chosen were the occurrence of the income, the contributions by self-employed workers due in year N (in respect of year-N income) would have to be estimated in full, in that it would only be declared in year N+1, or worse, in year N+2 (for those who contribute each quarter). In this case, the accounts would include only estimates, and their reliability would be uncertain[15]. In light of the date for completing the accounts (February of year N+1 for the accounts of year N), receivables are computed on an estimated basis. A national amount is determined by the Statistical Direction (DISEP), and the amount is then broken down by URSSAF. The calculation of receivables for year N is based on the forecast of collections in January of year N+1, rather than on a forecast of statements filed by contributors: if that were the case, potential non-payment would have to be accounted for via provisions, making the period-end accruals process

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[14] This is the response by the ACOSS Accounting Office to the Social Security Directorate: "[…] on the advisability of estimating receivables in respect of contributions and CSG from the self-employed. In conclusion, […] we indicate that, in light of potential forecasting errors, such a change would impair the transparency (*lisibilité*) of the accounts, and does not appear to be of current interest, given the prospect of the establishment of the *Régime Social Indépendant* (scheme for self-employed persons, RSI) which should provide the opportunity for harmonizing the computational methods of the various Social Security schemes. […]". (Letter from ACOSS Accounting Office to Ministry of Health and Solidarity, the Social Security Directorate, July 2005.

[15] «Art. D. 253-19-1. - Expenses relative to 'technical management' in respect of service performed or the opening of entitlement in a given year are booked to that year by the bodies referred to in article D. 253-1. At the start of each year, the director has ten days to identify the transactions in respect of service performed or the opening of entitlement during the previous year. All expense transactions relating to 'technical management', "irrespective of the branch concerned, for which the service was performed or entitlement was opened during that year, must be treated as expenses in respect of that year, even if the execution of the transaction occurs after year-end."

even more complicated. To take account of the time difference between the dates of payment of wages and the contribution due-for-payment dates, the forecast of collections by URSSAF and CGSS cover the fourth quarter of year N, and is based on the following assumptions:

	2002	2003	2004
Year-on-year change in private sector payrolls in fourth quarter of year N	+ 3.3%	+ 2.1%	+3.0%
Change in contribution-exempt amount in respect of December of year N, relative to the same period a year before	+ 3.7%	Stable	+ 14%

With an adjustment in the forecast based on the collections at end-January or February of year N+1, the amount receivable was thus computed taking into account for each beneficiary:

2002	2003	2004	
94.78%	94.9%	94.96%	of collections from the private sector in January of year N+1*
Total			collections from the public sector in January of year N+1
Total			collections from employers of domestic workers (EPM) in January and February of year N+1

* The remainder corresponds to the amounts of the instalment on 25 January of year N+1 in respect of the salaries for January of year N+1, which is not recognized in the previous year.

The lines of receivables are prorated across the bodies, based on the collections of each in an 'average' month in year N.

1.3.2. Date of recognition for expenses (national funds)

Under Circular DSS/SDFGSS/5C N. 96-437, of July 9, 1996, on the implementation of the principle of accrual accounting for technical management transactions in the Social Security general scheme, the event corresponds to:

- health care service under the health insurance scheme and accidents at work, and
- the opening of entitlement, that is, the award of benefits in the family allowance and old-age branches[16].

[16] Instruction in the family allowances branch relative to the implementation of the principle of accrual accounting for 'technical management' transactions, Circular Letter N. 225-96, of September 18, 1996.

a) National health insurance fund for employed persons (CNAMTS)

For the sickness insurance scheme, the date of recognition chosen was not the processing of the health care claim form, but the date of the health care service. This choice is justified by the following three reasons:

- the date of health care service is systematically entered, and the applicable fee schedule is connected to the date of the health care service,
- the claim arises from the health care service, provided the claim for reimbursement is sent,
- with the generalization of electronic data exchange of the health care claim forms, the date of health care service is automatically entered by the health care professional.

For health care spread over time, the period is divided if it covers two years.

b) The national fund for old-age insurance (CNAV) and the national fund for family allowances (CNAF)

For the family allowances and old-age branches of the French Social Security system, the date of recognition is characterized by the 'award of the benefit'. The table of date of recognition in the Uniform Chart of Accounts for Social Security Bodies published in Official Journal of the French Republic indicates that the recognition dates are "the year of the award for the first claim, and the normal instalment for subsequent instalments". This does not appear to be a matter of computing claimants' entitlements based on their situation, but rather simply a matter of the examination of the application. Applications processed and settled only in subsequent years (i.e., for which no award is made before year-end) are to be recognized in the previous year for the Old-Age branch, and a provision for accrued benefit is booked. The family allowances funds (CAFs) recognize such pending claims as payables at December 31, of year N (these are claims that will be examined by the CAFs in subsequent years). According to the official instruction for the family allowances branch dated September 18, 1996, "Up to now, the family allowances funds booked their 'technical expenses' on the basis of the date of payment of benefits. From 01/01/1996, those transactions must be recognized as soon as the benefit claim is filed. The filing is the date of recognition of the event in the Institution."[17] This instruction indicates that the recognition of the event is the filing of the claim for benefit. However, since 2004, the CNAF has been capable of estimating the amount of provisions for accrued benefit to be recognized in the current year, that is, the revaluation of the benefits recognized in the year.

[17] Because the adjusted deficit for 2005 was not available at the time of writing, the data for 2004 will be used to highlight the relevance of the date of recognition.

The date of recognition thus differs in different cases, with the coexistence of the recognition date of transactions based on the creation of entitlements, with an estimation of provisions for accrued benefit (for revaluation), and recognition based on the date of the claim, as the branch recognizes transactions upon receipt of the claim.

1.3.3. The alternative between due-for-payment, and creation of entitlement

a) Recommendations of the Uniform Chart of Account for Social Security Bodies (PCUOSS)

For the health insurance scheme, the date of recognition is the award: "receipt, examination and approval of the application by the administrative service of the health care claim forms (*feuilles de soins*). Recognition is based on the date of health care service, with year-end provisions." In the first part of this statement, the processing of the health care claim form should be the date of recognition of the event (i.e., this is a secondary date of recognition) but, in the second part of the statement, the date of recognition of the event appears to be the date of the health care service (a primary date of recognition): the statement is inconsistent. The family and old-age branches book only the benefits for which they receive a claim; this is indeed the 'receipt, examination and approval of the application by the administrative service'. But not all applications are finalised in the year (with calculation of payables by the family allowances funds and provisions for accrued benefit (provision pour rappel) by CNAVTS for the old-age fund. The table of date of recognition published in the Official Journal of the French Republic may diverge in some respects from the practices of the Social Security bodies. The table is a general overview, as the 'collections branch' and its officers have far more detailed tables available. This raises the problem of stakeholders' understanding of the notion of recognition of an event.

b) The possibility of accounting based on contributions registered and benefit claims

The choice of date of recognition requires a booking method that differs between claims, on the one hand, and declarations of contributions, on the other. If the choice of date of recognition is based on the creation of claimants' entitlement, and the liabilities of contributors, then receivables and provisions for benefits under the health insurance scheme must be estimated. However, because macroeconomic factors affect agents' behaviour, those estimates could prove considerably inaccurate. If the dates of recognition of an event were an item's falling due-for-payment, it would no longer be necessary to estimate provisions and receivables. The following two examples provide support for this hypothesis:

- For benefits from the national funds, particularly the CNAF and CNAVTS, the date of recognition is the receipt of the application. A problem arises with respect to provisions for accrued benefit, namely the estimates of the year's revaluations for the family allowances branch, and applications for which no award is made by year-end in the Old-Age branch. In addition, the Information System in the family allowances branch cannot identify in year N+1 the amounts corresponding to applications from year N that were not processed before December 31. The method for booking payables in the family allowances branch is not entirely reliable, due to constraints identified when conducting comparisons against actual expenses. Such payables are simply reversed at the start of year N+1. The same holds for benefits payable at the CNAMTS, for which the estimated provisions always involve a degree of uncertainty. Booking the amounts corresponding to entitlements claimed in a given financial year would then be more reliable. By applying a 'due-for-payment' date of an event, only claims during that year would be booked.

- Regarding turnover-based contributions by pharmaceutical firms and the income--based contributions by self-employed persons, at present the date of recognition of the event is the date of issue of the calls for contributions, due to the highly variable nature of turnover and income. No receivables are booked. This pragmatic choice was made in order to provide greater information reliability, because the entries to the accounts are actual data and not estimates. The accounts cannot include contributions relating to the current year's income or turnover, which are reported annually, the following year. If these accounts were based solely on provisions, they would be totally unreliable. Unlike employer contributions (monthly data), the income of self-employed persons and the turnover of the pharmaceutical firms are reported annually. If the same line of reason were adopted for employer contributions, for which the last instalment in the year is estimated, booking on a due-for-payment basis would allow the accounts to have only actual data, rather than estimated data; the errors in the estimates cause inaccuracy in the deficit.

It should be noted here that the choice of a different date of recognition of the event does not diverge from the principles of accrual accounting; the only difference arises from the time difference between the creation of the entitlement (primary date of recognition) and the time it is reported and contributions are computed (secondary date of recognition). These two examples show that it is more legitimate to use the date of calls for contribution (due-for-payment date). The question can be raised in future, if and when the information systems and methods of filing are changed. If the mission assigned to the Social Security System is to collect revenues to meet the needs of claimants, it is legitimate to suppose that claims by beneficiaries and the statements filed by the contributors are two categories of transactions that are highly correlated in the Social Security production cycle.

Therefore, if the choice of date of recognition corresponds to claims by beneficiaries and statements filed by contributors, only reliable and meaningful data will be booked, if one takes contributions due-for-payment in the year, and claims and reimbursements awarded in the same year. Thus, in light of current accounting practices and information systems, the Social Security accounts are not characterized systematically by absolute reliability. All these considerations lead to the following conclusion: using the date of the claims and declarations is the most reliable method for providing greater substance to the Social Security accounts, while improving rather than challenging the meaning of the deficit. In any event, improvements in practices and systems must be investigated.

The next part of the paper sets out the impact on the deficit of the Social Security funds of using the secondary date of recognition rather than the primary date of recognition.

2. Empirical Study of the impact of the date of recognition (DR) on Consolidated Information

2.1. Methodology and numerical simulation

The issues described above led us to formulate three research questions:

(1) Does a change in the choice of the date of recognition lead to a change in the accounting information, and more specifically in the amount of revenues and expense and consequently the deficit of the social security system?

(2) Is the accounting information more relevant after adoption of a different date of recognition?

(3) What are the policy implications of a change in the date of recognition?

This study examines inputs into the institutional decision making process, based on the accounts of the French Social Security system. Two hypotheses are investigated:

Hypothesis 1: Adoption of a Secondary DR has an impact on the reporting of Social Security revenues and expenses.

Hypothesis 2: Using the Secondary DR has a significant effect on the Social Security deficit, increases the degree of reliability of the accounting information released, and modifies decision-making.

To test these hypotheses and provide insight into the response, a three-year numerical simulation is carried out based on the accounting documents of the French national Social Security funds:

- The national health insurance fund, sickness insurance scheme (*Caisse nationale d'assurance maladie–branche maladie*, CNAM-AM);
- The national health insurance fund, accidents at work scheme (*Caisse nationale d'assurance maladie–branche accidents du travail*, CNAM-AT);
- The national fund for old-age insurance (*Caisse nationale d'assurance vieillesse*, CNAV);
- The national fund for family allowances (*Caisse nationale d'allocations familiales*, CNAF).

Over six months collaboration with the ACOSS (*Agence Comptable des Organismes de la Securité Sociale*) was required to carry out the study, essentially (a) to acquire statistical estimates of receivables and provisions and (b) to develop a methodology capable of providing more-relevant accounting data (see Table 1, which presents an excerpt of the statistically estimated period-end accruals).

The computational procedure set out in this paper takes these period-end accruals and restates the 'technical' revenue and expense (i.e., the revenues and expenses currently calculated with reference to the primary date of recognition) for the national funds and then the social security general scheme in order to cancel the period-end accruals (receivables and provisions), by removing the estimated amounts booked at year-end in year N, and adding the estimated amounts reversed at the start of year N+1.

For revenues the equation is:
$\Rightarrow$ REVENUES with SECONDARY DR = REVENUES with PRIMARY DR (N) + REVENUES RECEIVABLE (N–1) – REVENUES RECEIVABLE (N)

For expenses the equation is:
$\Rightarrow$ EXPENSES with SECONDARY DR = EXPENSES with PRIMARY DR (N) + PROVISIONS (N–1) – PROVISIONS (N)

The deficit using the secondary date of recognition is then written:
$\Rightarrow$ DEFICIT with SECONDARY DR = DEFICIT with PRIMARY DR (N) + (REVENUES with SECONDARY DR – REVENUES with PRIMARY DR) – (EXPENSES with SECONDARY DR – EXPENSES with PRIMARY DR)

The restatements and simulations performed for the 3 years from 2003 through 2005 are set out in Tables 1 and 2 below. They are used to determine the deficit of the Social Security System if the date of recognition (DR) of an event is an item's falling due-for-payment (secondary date of recognition), and allow comparison against the current deficit as determined using the primary date of recognition. These two deficit items are then compared to a third item, the 'adjusted deficit', which is adjusted to remove the errors in estimates of receivables and provisions. The deficit published by the Social Security bodies is adjusted for overestimates or underestimates in receivables and provisions, using the CCSS report for the following year. The 'adjusted deficit' is thus more relevant than the published deficit. As a consequence, to measure the reliability of the accounts, the 'adjusted deficit' will be used as the benchmark, and will be compared to the deficit currently published, and to a deficit based on a secondary date of recognition.

2.2. **Analysis of deficit**

An examination of the data obtained shows that the Social Security deficit figures with the Secondary DR are very close to the deficit figures with the Primary DR. There is only a slight downward trend for the Secondary DR deficit figures for 2003 and 2005, in comparison with the official deficit figures, and a faint upward trend for 2004 (Tables 1 and 2).

Table 1 – Impact of the secondary date of recognition of an event on Socila Security revenue and expense computed on the basis of the primary date of recognition of an event (€ billions)

DR: date of recognition, A.a.W.: accident at work, rcvble: receivable

Impact on revenue with primary DR

2005	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	119,801	8,696	61,799	39,118	229,414
- Receivable N	10,421	1,042	6,883	3,540	21,886
+ Receivable N-1	9,662	990	6,579	3,390	20,621
= Revenue with secondary DR (2)	119,042	8,644	61,495	38,968	228,149
Difference (2) - (1)	-759	-52	-304	-150	-1,265

2004	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	112,175	8,498	59,635	37,933	218,241
- Receivable N	9,662	990	6,657	3,390	20,699
+ Receivable N-1	9,396	940	6,412	3,271	20,019
= Revenue with secondary DR (2)	111,909	8,448	59,390	37,814	217,561
Difference (2) - (1)	-266	-50	-245	-119	-680

2003	Health	A.a.W	Old-Age	Family	TOTAL
Revenue with primary DR (1)	108,031	8,226	57,711	36,858	210,826
- Receivable N	9,396	940	6,412	3,271	20,019
+ Receivable N-1	9,447	938	6,266	3,496	20,147
= Revenue with secondary DR (2)	108,082	8,224	57,565	37,083	210,954
Difference (2) - (1)	51	-2	-146	225	128

Impact on expense with primary DR

2005	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	130,413	9,039	81,420	50,069	270,941
- Provisions N	7,067	282	—	—	7,349
+ Provisions N-1	4,681	264	—	—	4,945
= Expense with secondary DR (2)	128,027	9,021	81,420	50,069	268,537
Difference (2) - (1)	-2,386	-18	0	0	-2,404

2004	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	126,417	8,498	75,730	47,169	257,814
- Provisions N	4,681	264	—	—	4,945
+ Provisions N-1	4,801	290	—	—	5,091
= Expense with secondary DR (2)	126,537	8,524	75,730	47,169	257,960
Difference (2) - (1)	120	26	0	0	146

2003	Health	A.a.W	Old-Age	Family	TOTAL
Expense with primary DR (1)	119,815	8,567	72,112	44,992	245,486
- Provisions N	4,801	290	—	—	5,091
+ Provisions N-1	3,955	157	—	—	4,112
= Expense with secondary DR (2)	118,969	8,434	72,112	44,992	244,507
Difference (2) - (1)	-846	-133	0	0	-979

Table 2 – Impact of the secondary date of recognition of an event on Social Security deficit computed on the basis of the primary date of recognition of an event (€ billions)

DR: date of recognition, A.a.W.: accident at work

2005	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	-759	-52	-304	-150	-1,265
Difference on expense (2) - (1) - see table 1	-2,386	-18	0	0	-2,404
Net impact on deficit	1,627	-34	-304	-150	1,139

2004	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	-266	-50	-245	-119	-680
Difference on expense (2) - (1) - see table 1	120	26	0	0	146
Net impact on deficit	-386	-76	-245	-119	-826

2003	Health	A.a.W	Old-Age	Family	TOTAL
Difference on revenue (2) - (1) - see table 1	51	-2	-146	225	128
Difference on expense (2) - (1) - see table 1	-846	-133	0	0	-979
Net impact on deficit	897	131	-146	225	1,107

	2003	2004	2005
Net consolidated Deficit with primary DR	-10,209	-11,928	-11,638
Net consolidated Deficit with secundary DR	-9,102	-12,755	-10,498
Difference (€ billions)	1,107	-827	1,140
Difference (%)	-10.8%	6.9%	-9.8%

A detailed examination shows that the difference between the deficit figures computed with the Primary DR and Secondary DR, stated as a percentage of the deficit using the Primary DR, are significant: 9.8% in 2005, 6.9% in 2004 and 10.8% in 2003. These relative figures show the major impact of the Secondary DR, based on the due-for-payment date, relative to the deficit using the Primary DR. This difference between the deficit using the Primary DR and the deficit using the Secondary DR resides in the information content of the deficit. In the deficit using the Primary DR, revenues and expenses include forecasts that lead to a degree of uncertainty. On the other hand, computing the deficit using the due-for-payment (Secondary DR) will include only revenues that have fallen due-for-payment and benefits awarded during the year; so the accounting data are fully reliable and relevant. The degree of reliability of the deficit published by the Social Security system will therefore differ, depending on whether the Primary DR or Secondary DR is used. Therefore, the choice of the DR will have an impact on decision making by ministry authorities, and could result in policy. The greater relevance of the Secondary DR tends to enhance the quality of the financial information and permit greater reactivity by the authorities concerned in the decision process, thus confirming the first two hypotheses of our methodological approach.

Now, what would be the accounting impact using the secondary date of recognition, in terms of Social Security revenue, expense, and the deficit? Another simulation is performed to attempt to measure the impact on the data for 2005. Based on an examination of the deficit in this simulation (Table 3), adopting the secondary date of recognition, in the transitional year 2005, should lead to an increase in the Social Security deficit of 125%, or 14,614 billion Euros[18]. However, use of the secondary date of recognition involves a change in accounting policy, insofar as it is justified by an attempt to improve information – which is a necessary condition for a change in policy to be considered acceptable.

Table 3 – Impact on the 2005 accounts

Impact on net worth in the opening balance, at 01/01/05	
- cancellation of revenues (receivables from 2004)	-20,699
- cancellation of expenses (provisions from 2004)	4,945
Net impact	-15,754
Deficit at 31/12/2005 (secondary date of recognition)	-10,498
Impact on net worth at 31/12/2005	-26,252

The impact of this change in policy should be taken to net equity, specifically on the 'carried forward' line at the opening of the year. Information on the context must be provided in the notes to the accounts, and pro-forma accounts for the prior years must be produced (as per Art. 314-1 of CRC regulation N. 99-03)[19]. Accordingly, under this accounting procedure, the deficit for the year is not affected by prior-year adjustments[20]. According to the data in our simulation, for 2005, the impact of the change in policy, computed to be negative 14,536 billion euros, should be posted as a debit entry to the "Accumulated surplus/deficit carried forward". At year-end for that year, the consolidated deficit for the Social Security general scheme will not be affected by the impact of the change in policy.

[18] Impact on net worth at 31/12/2005 - Deficit CSSA (primary date of recognition) = -26,252-(-11,638) = -14,614.

[19] Article 314-1 of CRC (*Comité de la Réglementation Comptable,* French Accounting Regulatory Committee) regulation 99-03. "Upon changes in accounting policies, the after-tax impact of the new policy is calculated retrospectively, as if that policy had always been applied. If the impact on the opening balance cannot be estimated objectively, particularly when the new policy involves assumptions, the impact of the change shall be calculated prospectively. The after-tax impact of the change on the opening balance is allocated to the 'carried forward' line from the opening of the year unless, under tax rules, the enterprise must recognise the impact of the change in the income statement. When the changes in accounting policies lead to booking of provisions without being recognized in the income statement, the portion of those provisions that was not paid out ('*qui n'a pas trouvé sa justification*') is written back to equity." This French accounting rule is fully consistent with the provisions of IAS 8 relative to changes in accounting policy.

[20] In December 2005, the provision of Article 314-1 was applied by most of the national bodies, in agreement with the executive bodies of the Social Security System, following application of a change in accounting policy in a context different from the context set out in this study. See "Preparatory Report on the Certification of the Accounts of the Social Security System", The Court of Accounts (*Cour des Comptes*), September 2006, pp. 28-29.

Conclusion: a Reformulation of the Research Question

The transition to accrual accounting creates the conditions for a true and fair view of the assets and liabilities and financial position of each body, branch or scheme. But the specificities of Social Security transactions (services, contributions, and claims) raise multiple difficulties in terms of their accounting treatment (identification, valuation and booking) and explain why they continue to be poorly captured by the new public accounting standards. In 2006, The Court of Accounts (*Cour des Comptes*) emphasized that a genuine effort had been made to file reliable information in line with the demands of the future consolidation standard, even if considerable work remained to be done to improve the quality and the completeness of the content of the notes to the consolidated accounts. The Court of Accounts also identified inadequacies in the application of accrual accounting, particularly for year-end transactions; this affects the informational and predictive content of the accounting data. In an attempt to clarify and make proposals to deal with the latter criticism, the authors have focused their study primarily on the impact of the choice of a 'due-for-payment' event – i.e., a secondary date of recognition – on the consolidation of the Social Security accounts. The deficit figures computed, after restatement of the accounting data for the national funds and numerical simulation, indicate that the secondary date of recognition has a significant impact on the consolidated deficit figures for Social Security in the 2003-2005 period. To avoid having annual criticism by The Court of Accounts regarding lack of clarity in the computation of receivables and provisions, in the financial statements of the national funds, adopting the secondary date of recognition is the surest solution. As this involves a change in accounting policy, the impact on the accounts will be carried directly to the opening net worth balance and will not affect the deficit for the year. Finally, this will allow ACOSS to shorten the time required for work on the period-end accruals, and thus submit its financial statements earlier to the Court of Accounts. The ACOSS information system, and specifically its process for recognition and measurement of revenues, is currently too unreliable or inconsistent to allow the publication of reliable information and, consequently, of reliable accounting statements. The research question should perhaps be reformulated, to focus less on the issue of information reliability and more on a major conceptual problem: How to match revenues that originate today but will fall due for payment only in future years? What type of revenues should be matched against current-period expenses? Shifting the focus in this way, the process of income recognition and measurement becomes a matter of relevance rather than of reliability. If the usefulness of accounting information must satisfy two fundamental criteria, relevance and reliability, it may be legitimate to consider that relevance must take precedence over reliability.

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